



Annual Update 2025

NATP™

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Your Instructor

Individual and Business Tax Changes

NATP™

Annual Tax Update



New laws & developments

Analyze new federal tax laws and developments affecting individuals and businesses.



Income tax treatment

Determine the proper tax treatment of different sources of income.



Analyze changes in rules for key credits and deductions.



Identify provisions that were extended, phased out, or expired.



Individual Tax Changes

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Extension and Enhancement of Increased Standard Deduction – §70102(c)

- Eliminates the 2026 sunset —TCJA-level standard deduction is permanent.
- 2025 base amounts: \$31,500 [married filing jointly (MFJ)/qualifying widow(er) (QW)], \$23,625 (head of household (HOH)), \$15,750 (single/married filing separately (MFS))]
- Continues annual inflation indexing (chained CPI-U)
- No change to the additional standard deduction for age 65+ or blind (separate temporary senior deduction under §70103)
- Practice tip: expect fewer itemizers; revisit bunching strategies and withholding/estimates



Termination of Deduction for Personal Exemptions Other Than The Temporary Senior Deduction – §70103

- Personal exemptions repealed permanently; TCJA suspension made permanent by removing the 2026 sunset in §151(d)(5)
- Temporary senior deduction (2025-2028): \$6,000 per person age 65+; up to \$12,000 on a joint return if both qualify
- Phaseout for senior deduction: reduced by 6% of MAGI over \$75,000 (single) / \$150,000 (MFJ); MAGI includes amounts excluded under §§911, 931, 933
- Filing/ID rules for senior deduction: valid SSN required; if married under §7703, must file jointly (MFS not eligible)
- Still separate: the additional standard deduction for age 65+/blind under §63(f) remains
- Note for practitioners: exemption amounts still exist “behind the scenes” for tests like qualifying relative; they’re just not deductible
- Where claimed: Schedule 1-A (Form 1040), Part V – “Senior Deduction.” Carries to Form 1040, Line 13b (Additional Deductions).



Senior Deduction

Summary table – 2025 senior deduction (age 65+)

Filing Status	Full Deduction	Phaseout Range (MAGI)	Phaseout 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



Termination of Deduction for Personal Exemptions Other Than the Temporary Senior Deduction – §70103

Key takeaways

Provision	Summary of 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

- 2025 bump: per-child credit increases to \$2,200 for tax year 2025
- Indexing begins 2026: Both the CTC maximum and the refundable portion will be indexed annually; increases are rounded down to the nearest \$100
- The new law (Public Law 119-21, §70104) keeps the ACTC base at \$1,400 but indexes it for tax years beginning after 2024, with rounding to the next lower \$100 — yielding \$1,700 for 2025
- Phaseout unchanged: thresholds remain \$200,000 (single/HOH) and \$400,000 (MFJ)
- SSN rules unchanged: A valid SSN is required for each qualifying child and at least one spouse on a joint return; IRS may use math-error authority to disallow if missing
- Effective date: applies to tax years beginning after Dec. 31, 2024
- Practice tip: update estimates and planning models; confirm SSNs early and watch refundable-limit interactions



Child Tax Credit Summary

Key takeaways

Provisions	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	\$1,700 for 2025; indexed for inflation starting in 2026
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

- Cap raised for 2025: \$40,000 (\$20,000 MFS); increases 1%/yr 2025–2028; reverts to \$10,000 (\$5,000 MFS) in 2030
- Income-based phaseout (2025): reduce cap by 30% of MAGI over \$500,000 (\$250,000 MFS); thresholds rise 1%/yr 2026–2029; floor stays \$10,000 (\$5,000 MFS)
- MAGI definition for phaseout: AGI plus amounts excluded under §§911, 931, 933
- Effective date: tax years beginning after Dec. 31, 2024
- PTET workaround unchanged: elective passthrough entity taxes remain outside the individual SALT cap



Example – SALT Phaseout

- Setup: MFJ; SALT paid \$42,000; 2025 cap \$40,000; MAGI \$595,000; phaseout begins at \$500,000 and reduces cap by 30% of excess MAGI; floor \$10,000
- Excess MAGI: $\$595,000 - \$500,000 = \$95,000$
- Phaseout reduction: $30\% \times \$95,000 = \$28,500$
- Adjusted cap: $\$40,000 - \$28,500 = \$11,500$ (above the \$10,000 floor)
- Deduction allowed: \$11,500; \$30,500 of the \$42,000 SALT paid is not deductible

NATP Observation

- Early House drafts would have barred specified service trades or businesses (SSTBs) from using PTET SALT workarounds while raising the SALT cap
- The restriction was removed before enactment; the final law preserves PTET eligibility for traders and other SSTB owners (subject to state PTET rules)
- Result: SALT relief now applies uniformly by income thresholds under §70120—not by business type—while PTET remains a separate, still-available workaround
- (Practical note: verify your state's PTET regime; entity-level taxes remain outside the individual SALT cap.)



No Tax on Tips §70201

- Amount and phaseout: deduct up to \$25,000 of qualified tips; reduce by \$100 per \$1,000 of MAGI over \$150,000 (single/HOH) or \$300,000 (MFJ)
- Effective dates: applies to tax years 2025–2028 (returns for years beginning after Dec. 31, 2024 and before Jan. 1, 2029)
- Where claimed: below-the-line deduction starting on Schedule 1-A, Part II (No Tax on Tips); add to Part VI total and carry to Form 1040 line 13b (Additional Deductions)
- What counts: voluntary cash/charged tips in IRS-listed tipped occupations; must be reported on W-2/1099 or Form 4137
- Eligibility guardrails: valid SSN required; if married, must file jointly to claim
- SSTB restriction: not available if you're self-employed in an SSTB (or an employee of an SSTB employer)
- Timing/guidance: IRS will publish the qualifying-occupation list by Oct. 2, 2025; transition relief applies for TY2025 reporting



Qualified Tips — What Counts (and What Doesn't)

- Definition: “qualified tips” are cash tips received in an occupation that customarily and regularly received tips on or before Dec. 31, 2024, as listed by Treasury/IRS. Cash tips include card (charged) tips and, for employees, tips received under tip-sharing arrangements
- Voluntary only: The tip must be voluntary, non-negotiated and determined solely by the customer (no service charges/auto-gratuities)
- SSTB bar: Tips don't qualify if received in the course of a specified service trade or business (SSTB) under §199A(d)(2) (e.g., health, law, accounting, performing arts, athletics). For employees, you're treated as in an SSTB if your employer's trade or business is an SSTB.
- Occupation list: Treasury must publish the list of qualifying occupations within 90 days of enactment (by Oct. 2, 2025); a preliminary list (e.g., waitstaff, bartenders, skincare specialists, etc.) is already out



Medspa Discussion — Does the Nurse Qualify?

- If the employer is engaged in health services (typical for Botox injections), that's an SSTB, so the nurse's tips are not qualified under §224(d)(2)(B) and the employee rule tying eligibility to the employer's trade
- If, fact-specifically, the employer is not an SSTB (e.g., purely non-medical spa services) and the occupation appears on Treasury's list, tips could qualify—watch forthcoming regulations for borderline cases



Reporting, Withholding, Timing

- Employer/payor reporting: must separately report cash tips and the recipient's occupation on information returns; IRS provides transition relief for 2025
- Payroll taxes unchanged: Tips remain subject to FICA/Medicare; the §45B tip credit is expanded to beauty service establishments beginning in 2025



Maria — 2025 Tip Scenarios (Single; Texas)



- Facts: base wage \$4,260; tips \$37,500; total \$41,760. FICA at 7.65% on all reported wages/tips. No other income, credits or deductions.

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. OBBBA – \$25,000 tip deduction	\$41,760	\$40,750*	\$1,010	\$101	\$3,195	\$3,296	Compliant

Maria — 2025 Tip Scenarios (Single; Texas)

Notes:

- Under scenario five (OBBBA), 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



No Tax On Tips – Summary

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



Update (August 2025) – Preliminary Tipped Occupation List

- **Treasury/IRS released a preliminary list** of occupations that “customarily and regularly” received tips on or before **Dec. 31, 2024**; the official proposed list will be published in the Federal Register and is expected to be **substantially the same** after comments
- **Examples on the list:** restaurant **wait staff** and **bartenders**; salon/spa roles like **skincare specialists** and **massage therapists**; hospitality roles (e.g., **baggage porters/bellhops**); and transportation like **taxi/rideshare drivers**
- **Purpose/timing:** gives taxpayers, employers and practitioners clarity ahead of the 2025 filing season; IRS had targeted publication by Oct. 2, 2025, and may update the list with further guidance
- **See the full preliminary list (PDF):** [“Tipped-Occupations-Detailed-8-27-2025”](#)



No Tax On Overtime – §70202

- Temporary deduction (2025–2028): Allows a deduction for qualified overtime compensation; provision sunsets after 2028
- What qualifies: only the premium portion above the regular rate required under FLSA §7 (the “half” in time-and-a-half). Qualified tips are excluded.
- Caps and phaseout: up to \$12,500 (single) / \$25,000 (MFJ). Reduce by \$100 for each \$1,000 of MAGI over \$150,000 (single/HOH) / \$300,000 (MFJ). MAGI = AGI + exclusions under §§911, 931, 933.
- Filing requirements: must include a valid SSN; if married under §7703, must file jointly to claim
- Where claimed: Schedule 1-A (Form 1040), Part III – “No Tax on Overtime.” Carries to Form 1040, Line 13b (Additional Deductions).
- Reporting: Employers must separately show qualified overtime on Form W-2 (new §6051(a)(19) entry). Certain payors report via §6041(d)(4) information returns; 2025 transition relief applies.
- Payroll taxes unchanged: The deduction affects income tax only; FICA/Medicare still apply to overtime pay



Phaseout Ranges for Overtime Deduction

Filing Status	Maximum Deduction	Phaseout Begins at MAGI	Fully Phased Out at MAGI	Phaseout 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



Example – No Tax On Overtime



Facts: Maria (restaurant shift supervisor) earns \$20/hr and works 250 OT hours at time-and-a-half in 2025. MAGI: \$90,000

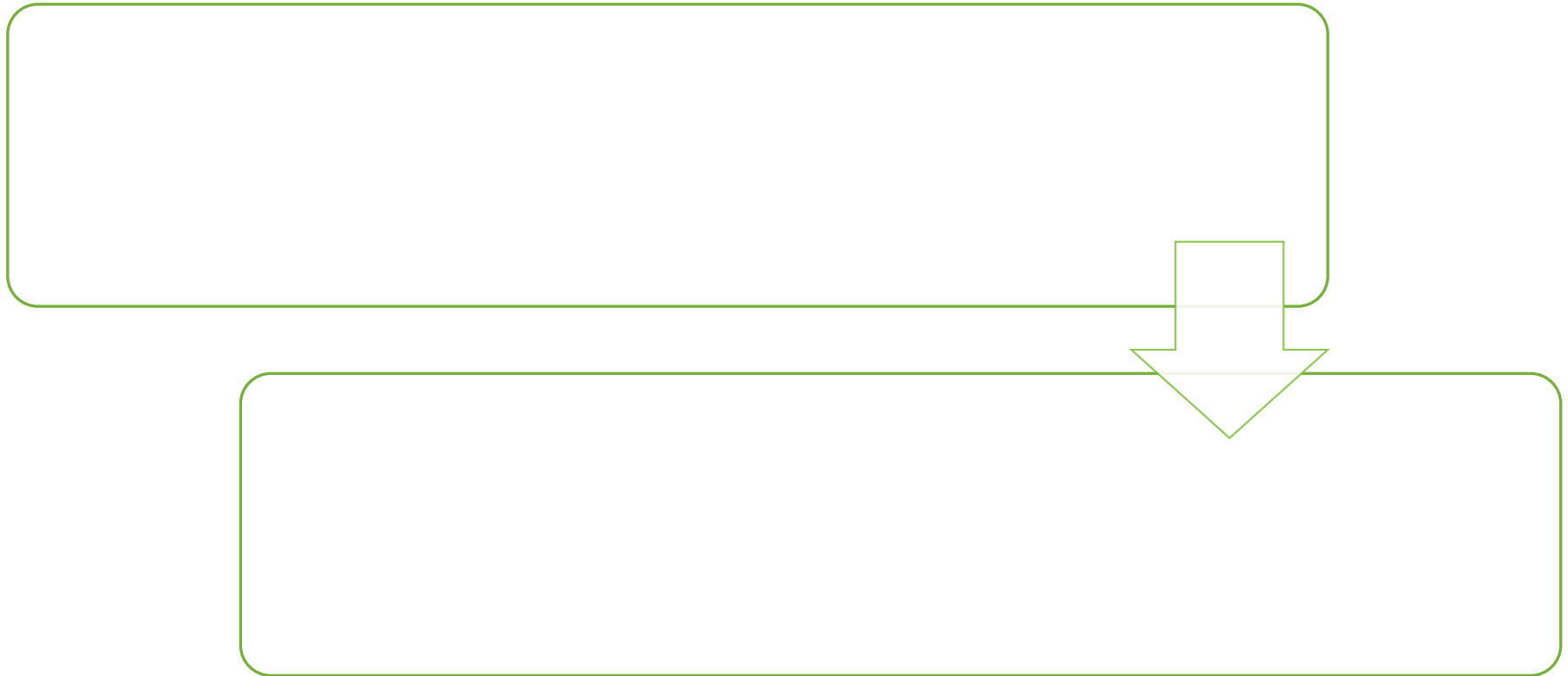
- OT rate: \$30/hr. $\Rightarrow$ premium portion = $\$30 - \$20 = \$10/\text{hr}$.
- Deductible overtime (premium only): $\$10 \times 250 = \$2,500$
- Cap and phaseout checks:
 - Annual cap (Single): \$12,500 $\Rightarrow$ \$2,500 is within cap.
 - Phaseout: begins at \$150,000 MAGI (Single) $\Rightarrow$ no phaseout at \$90,000
- Where claimed (below the line deduction): Schedule 1-A (Form 1040), Part III — “No Tax on Overtime” $\rightarrow$ included in Part VI total $\rightarrow$ Form 1040, Line 13b
- Payroll taxes: FICA/Medicare still apply to the full overtime wages ($250 \times \$30 = \$7,500$); the deduction affects income tax only

Example – No Tax On Overtime



- Facts Jason (MFJ, 2025): Overtime pay \$20,000; MAGI \$325,000 → exceeds MFJ threshold \$300,000
- Phaseout math: excess \$25,000 → $25 \times \$100 = \$2,500$ reduction. *Why:* The law reduces the allowable deduction by \$100 for each \$1,000 over the MFJ threshold.
- Cap: max deduction \$25,000 (MFJ), reduced by phaseout; cannot go below \$0
- If \$20,000 is all “qualified overtime” (premium portion):
 - Pre-phaseout \$20,000 → $\$20,000 - \$2,500 = \$17,500$ allowed (with SSNs present)
- Compliance rule: valid SSNs required; **Jason omitted his SSN → deduction disallowed**
- Final deduction: \$0
- Placement: below the line on Schedule 1-A, Part III (No Tax on Overtime) → Form 1040, Line 13b

No Tax On Overtime – Practical Reminders



Deductible Car Loan Interest – §70203

- Effective dates: applies to tax years 2025–2028 (loans incurred after Dec. 31, 2024)
- What qualifies: interest on a first-lien loan used to purchase a qualifying passenger vehicle for personal use; vehicle identification number (VIN) must be reported on the return. Refinances qualify only up to original principal.
- What doesn't qualify: interest on fleet or commercial-use vehicles, leases, salvage-title vehicles or vehicles intended for scrap/parts; related-party loans under §267(b) or §707(b)(1)
- Deduction limit: up to \$10,000 of interest per year
- Phaseout: begins at MAGI \$100,000 (\$200,000 MFJ); reduce the allowed amount by \$200 for every \$1,000 (or part thereof) over the threshold
- Itemizers and non-itemizers: deduction is available to both under §63(b)(7)
- Where claimed: below the line deduction on Schedule 1-A (Form 1040) Part IV, Additional Deductions → included in Part VI total → Form 1040, Line 13b



Car Loan Interest Deduction – Phaseout

Filing Status	Max Deductible Interest (per year)	Phaseout 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 §70203

- What “qualified” means: Intended for the taxpayer’s original use and primarily manufactured for use on public roads
- Eligible types: cars, minivans, vans, SUVs, pickup trucks, motorcycles — must have ≥ 2 wheels and GVWR $< 14,000$ lb.
- *Clean Air Act* test: must be classified as a motor vehicle under the *Clean Air Act*
- Final assembly (U.S.): Final assembly must occur in the United States (i.e., the plant/factory process that produces a vehicle delivered to a dealer with all parts needed for mechanical operation, whether or not permanently installed)



NATP Observation On Mixed-Use Vehicles

- Business portion: Interest for the business-use percentage remains deductible on the business return (e.g., Schedule C for sole proprietors; or via K-1 for partnerships/S-corps)
- Personal portion: May be claimed under §70203 (subject to that provision's limits and phaseout). Additional IRS guidance is expected on the precise reporting split between business and personal on Form 1040/Schedule 1-A.
- Allocate first: Determine business vs. personal use (e.g., mileage log) and allocate total annual car-loan interest by that percentage
- Limits still apply: Personal portion is subject to the \$10,000 annual cap, phaseout (starts at \$100k MAGI; \$200k MFJ), VIN reporting, first-lien, post-12/31/2024 loan and related-party/fleet/lease exclusions



Trump Account §70204 (Minors)

- What it is: child-focused, tax-advantaged savings account (modified traditional IRA under §408(a), created by §530A) for beneficiaries under age 18 with a valid SSN
- Effective window: Contributions allowed only while under 18; distributions prohibited until the calendar year the child turns 18. 12-month waiting period after enactment before contributions may begin.
- \$1,000 pilot deposit: one-time Treasury deposit for eligible births 1/1/2025–12/31/2028 (§6434 appropriation through 9/30/2034)



Trump Account Purpose & Eligibility

- Purpose: financial education, retirement readiness and asset building for minors
- Eligible owner: individual under 18 with a valid Social Security number
- Structure: modified traditional IRA under §408(a); must be titled as a “Trump Account”
- Custody: established with an IRS-approved trustee/custodian; adult custodian controls until age of majority
- Availability window for \$1,000 seed: children born **Jan. 1, 2025-Dec. 31, 2028**
- Access: distributions barred until the calendar year the beneficiary turns 18
- Investments: limited to mutual funds and indexed ETFs



Trump Account Contribution & Limits

- Annual limit: \$5,000 per beneficiary (rollovers excluded); indexed starting 2028, rounded to nearest \$100
- Who may contribute: parents, employers (§128; excluded from child's income), and charitable/government entities (§139J). Contributions must be designated as Trump Account at setup.
- Employer funding: up to \$2,500/year
- Charitable/government funding: excluded under §139J (subject to program eligibility)
- Federal seed deposit: one-time \$1,000 for children born Jan. 1, 2025-Dec. 31, 2028
- Pilot program credit: \$1,000 nonrefundable tax credit to initiate accounts for 2025-2028 births; capped at \$410M; available through Sept. 30, 2034 (§6434)
- Timing rules: contributions allowed only while the beneficiary is under 18; begin after a 12-month waiting period following enactment



Trump Account Tax Treatment & Investment Rules

- Earnings grow tax-deferred; qualified distributions are tax-free
- Exclusions from income/basis: For §72 purposes, “investment in the contract” excludes government (§6434), charitable/government (§139J) and employer (§128) contributions
- Distributions prohibited until year beneficiary turns 18
- Qualified uses: education, first-time home purchase, disability
- Permitted investments: only mutual funds and indexed ETFs
- Contributions do not reduce IRA/529 limits



Trump Account Rollover and Custody

- Trustee-to-trustee rollovers allowed to other Trump or ABLE accounts by age 17
- Custodial structure under §408(h) until age 18; then beneficiary takes control
- Account ceases upon death; treated as inherited IRA



Trump Account – Compliance and Penalties

- Trustee duties: §530A(i) reporting/recordkeeping; strict custodianship rules
- Excess contributions: 6% excise tax under §4973; potential 100% tax on earnings
- Strict trustee reporting ends at age 17 unless rollover/death
- Fraudulent claims of credit penalized under §§6659, 6662, 6663
- Anti-fraud: Penalties for improper \$1,000 claims (§6659)
- SSN required: Beneficiary must have a valid SSN to open/claim benefits



Trump Account Case Study – Emma (Born 2026)



- Account setup
 - Emma is born in 2026 and receives a \$1,000 federal deposit via the pilot program
 - Her parents open a Trump Account and begin annual contributions
- Contributions timeline
 - Parental contributions: \$2,500/year from birth through age 17
 - Employer contributions: \$2,500 at age 16 and again at 17 (excluded from income under §128)
 - Total contributions: ~\$50,000 over 17 years
- Investment and growth
 - Funds invested in a qualified index fund (mutual fund or indexed ETF)
 - Tax-deferred growth over 17 years yields account value exceeding \$70,000 by age 18

Trump Account Case Study – Emma (Born 2026)



- Distribution and tax impact
 - Emma gains full access at age 18
 - Can use funds for any purpose (e.g., education, home purchase or personal use)
 - No personal income tax liability during contribution or accumulation phases
- Key takeaways
 - Combines public, family and employer funding
 - Demonstrates early asset accumulation potential under §70204
 - Supports financial independence for young adults with minimal tax friction

Trump Account Case Study – Noah (Born 2027)



- Improper contribution and early withdrawal
 - Excess contribution: Family contributes \$7,000 in one year (limit = \$5,000)
 - Unauthorized withdrawal: At age 16, Noah withdraws \$2,000 to buy a laptop
- Consequences
 - Excess contribution penalty:
 - 6% excise tax on excess
 - 100% tax on earnings attributable to uncorrected excess under §530A(d)(5)(C)

Trump Account Case Study – Noah (Born 2027)



- Early withdrawal violation:
 - Distributions prohibited before age 18
 - May trigger penalties under §530A(f) unless exception applies
 - Laptop purchase is not a qualified use under §530A(d)
- Key takeaway
 - Trump accounts have strict contribution and distribution rules
 - Errors can trigger significant penalties and loss of tax benefits

New Coverage for Postsecondary Credentialing Expenses – §70414

- Adds **industry-recognized credentialing** to qualified higher ed expenses
- Eligible costs:
 - Tuition, fees, materials for approved programs
 - Exam/testing fees for licenses/certifications
 - Continuing ed to maintain credentials
- Qualified programs:
 - On state WIOA workforce list (§122(d)) or VA WEAMS directory
 - Exam required to obtain or maintain the credential by recognized organization
 - Certified by Treasury or Labor as reputable
- Includes: professional/occupational licenses, apprenticeship completions
- Effective: §529 distributions after July 4, 2025
- Homeschooling expenses (e.g., curriculum/materials) remain ineligible under these amendments



Adoption Credit Enhancement – §70402

- Starting tax years after Dec. 31, 2024, up to \$5,000 of the §23 adoption credit is refundable each year
- \$5,000 cap applies per year, not per child (e.g., adopting two children in one year = \$5,000 total refundable)
- Indexing of the \$5,000 refundable cap: Indexed starting in 2026 with a special rule using calendar year 2024 as the base; amounts round to the nearest \$10 (P.L. 119-21, §70402 adding §23(h)(3) and rounding rule)
- Credit above \$5,000 remains nonrefundable with a five-year carryforward §23(a) & §23(c)(1)
- Refundable portion cannot be carried forward
- 2025 amounts: max qualified expenses \$17,280 per child. Phaseout begins at MAGI \$259,190 and is fully phased out at \$299,190; indexed thereafter. (IRS Rev. Proc. 2024-40).
- Existing adoption credit and phaseouts: indexed from 2001 base year



Adoption Credit Enhancement Special Needs Expansion – §70402



Indian tribal governments may determine “special needs” status for credit eligibility effective for tax years after Dec. 31, 2024



No uniform federal definition; criteria vary by state or tribal authority



Sunsetting of Individual Green Energy Tax Credits – §§70501–70506

- **Clean/new and used vehicle credits** end for vehicles **acquired after Sept. 30, 2025**.
“Acquired” = binding written contract **plus** a payment (down payment or trade-in).
Credit is claimed at **placed-in-service (delivery)**; a 2026 delivery still qualifies if acquisition met the 9/30/25 deadline.
- Residential clean energy (§25D) credit ends for expenditures made after Dec. 31, 2025 (measured by installation completed/original use—prepayment doesn’t lock it in)
- Energy-efficient home improvements (§25C) credit ends for property placed in service after Dec. 31, 2025
- Alt-fuel refueling property (§30C) credit ends for property placed in service after June 30, 2026.

Source: [IRS Fact Sheet FS-2025-05 \(announced in IR-2025-86, Aug. 21, 2025\)](#).



Sunseting of Individual Green Energy Tax Credits – Summary Table

Credit / Deduction	Termination Rule	Practical Cut-off to Advise Clients
Clean vehicle (§30D)	Not allowed for vehicles acquired after 9/30/2025	Enter a binding contract and make a payment by 9/30/2025; claim when delivered (placed in service), even if in 2026.
Previously owned clean vehicle (§25E)	Not allowed for vehicles acquired after 9/30/2025	Same “acquired” rule as new vehicles (binding contract + payment by 9/30/2025).
Residential clean energy (§25D)	Not allowed for expenditures made after 12/31/2025	Finish installation/original use by 12/31/2025; prepaying doesn’t qualify if work completes in 2026.
Energy-efficient home improvement (§25C)	Not allowed for property placed in service after 12/31/2025	Property must be installed and usable by 12/31/2025.
Alt-fuel refueling property (§30C)	Not allowed for property placed in service after 6/30/2026	Equipment must be installed and functional by 6/30/2026.



Determining Factors (Talking Points)

- “Acquired” defined (clean-vehicle credits): binding contract + payment on/before Sept. 30, 2025 → credit allowed when the vehicle is placed in service (delivery), even if that’s after the deadline. Dealer time-of-sale reporting still applies.
- §25D timing: An expenditure occurs when installation is completed (or when the home’s original use begins for construction cases). Finish after 12/31/2025 → no credit, even if fully prepaid.

Reference: [IRS FS-2025-05 and IR-2025-86 \(Aug. 21, 2025\)](#) compile all early termination dates and portal changes (e.g., new clean-vehicle **ECO portal** registrations close **Sept. 30, 2025**).



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

- 8.5% cap sunsets 12/31/2025 (ARPA/IRA; not part of OBBBA). 2026 returns to the ACA sliding table; eligibility limited to 100%–400% FPL.
- 2026 rule: ARPA's 8.5% cap ends after 2025; 2026 uses the Applicable-Percentage Table: 2.10% → 9.96% (max applies at 300%–400% FPL)
- Over 400% FPL = no PTC starting 2026, even if premiums exceed 8.5% of income
- APTC reconciliation: Repayment caps eliminated after 2025 (full repayment of excess APTC)
- Eligibility tightening (2026): Lawfully present individuals below 100% FPL lose access to PTCs; certain SEPs no longer PTC-eligible
- 2027 shift: PTCs limited to defined “eligible aliens”; many categories (e.g., DACA, TPS, some nonimmigrants) excluded



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

- Employer “affordability” — ESRP (§4980H)
 - What it is: separate percentage used to test if an employer’s offer of coverage is affordable (for §4980H(b) penalties) and whether that offer disqualifies PTC
 - Set annually by IRS for plan years (e.g., 2025 plan-year rate = 9.02% of household income, measured against the lowest-cost self-only plan that meets minimum value)
 - Safe harbors: W-2, rate-of-pay, or federal poverty line methods apply to the employer test — not to the PTC table
 - Affordable employer offer present? Employee (and generally family) not PTC-eligible, even if premiums exceed the PTC table percentage.
- Remember: PTC table $\neq$ employer affordability %. They’re related but distinct frameworks used for different purposes.



- Facts: MAGI \$150,000; family size 2; MI; annual premiums \$14,500
- FPL test: Table 1.1 FPL for 2 = \$19,720 → 400% FPL = \$78,800 → \$150,000 > 400% FPL
- 8.5% rule (ARPA/IRA): household cap = $8.5\% \times \$150,000 = \$12,750$
- Eligibility: If the benchmark SLCSP annual premium > \$12,750, a PTC is allowed even though the household is over 400% FPL
- Note: The taxpayer's actual premiums (\$14,500) exceed \$12,750, but the PTC is computed against the SLCSP, not what they happened to pay

- Same facts: MAGI \$150,000; family 2; MI; premiums \$14,500
- 400% FPL cliff returns: over 400% FPL = no PTC, even if premiums exceed 8.5% of income
- 2026 table applies: PTC uses the ACA applicable-percentage table (max share ~9.96% at 300%–400% FPL), but no credit once income exceeds 400% FPL

- Model 2026 renewals using ACA table (not 8.5%)
- Check FPL thresholds and SLCSP for clients near 400%
- Warn APTC recipients: excess must be fully repaid starting 2026
- Document status for non-citizen clients ahead of 2027 changes

Disallowing Premium Tax Credit In Case of Certain Coverage Enrolled in During Special Enrollment Period – §71304



- Effective date: tax years beginning after Dec. 31, 2025
- What changes: Marketplace enrollments via a special enrollment period triggered solely by income (e.g., $\leq 150\%$ FPL) are not eligible for PTC/APTC starting 2026.
- No coverage month counts for PTC until exchange verifies income, family size, lawful presence, residency and MEC eligibility
- Retroactive credit allowed once verified; certain family changes may waive requirements
- Exchange data reporting failures can also disqualify months
- 2028 onward – pre-enrollment verification required; window opens by Aug. 1 prior year

Disallowing Premium Tax Credit In Case of Certain Coverage Enrolled in During Special Enrollment Period – §71304



- Still allowed: SEPs due to a qualifying life event (QLE)—marriage, birth, move, loss of MEC, etc.—remain PTC-eligible if other §36B rules are met
- Implication: reduces risk of SEP abuse by preventing subsidized coverage without real eligibility and limits PTCs to enrollments tied to specific, verifiable life events
- Practice notes: Document QLEs; if none, do not take APTC to avoid full repayment. Check Medicaid/CHIP options for $\leq 150\%$ FPL households.

Eliminating Limitation on Recapture of Advance Premium Tax Credit (APTC) – §71305



- What changes: repeals §36B(f)(2)(B) income-based repayment caps for excess APTC
- Repeal effective 2026 – all taxpayers repay full excess regardless of income
- 2025 status quo: Caps still apply by income (e.g., capped below 400% FPL; no cap above 400% FPL)
- 2026 and after: All excess APTC must be repaid in full, regardless of income
- APTC remains: monthly advance credits still available; only the repayment cap is eliminated
- Who's affected: any Marketplace enrollee who takes APTC and later has higher final income than projected

Eliminating Limitation on Recapture of Advance Premium Tax Credit (APTC) – §71305



- **Practice notes (for preparers)**
 - Urge clients to update income midyear with the Exchange; consider lower APTC to reduce clawback risk
 - Reconcile on Form 8962; expect larger year-end liabilities when income is understated

PTC Disallowed to Aliens Below Poverty Line Who Are Ineligible for Medicaid – §71302



- What changed: eliminates the special rule that let lawfully present aliens claim the PTC with income below 100% FPL when Medicaid-eligible due to status (amends §36B(c)(1))
- New rule (TY 2026+): To qualify for the PTC, all taxpayers must meet the $\geq 100\%$ FPL income test (subject to the usual limited exceptions in §36B).
- Effective date: tax years beginning after Dec. 31, 2025
- **Practice notes**
 - Verify immigration category and household income early; under-100% FPL and Medicaid-eligible now means no PTC starting 2026
 - Avoid APTC if under 100% FPL and no QLE—otherwise expect full repayment at reconciliation (see §71305)
 - Check Medicaid/CHIP eligibility and state options; coverage can still be purchased at full premium without PTC

Requiring Verification of Eligibility for The Premium Tax Credit – §71303



- Effective date: tax years beginning after Dec. 31, 2027
- Pre-enrollment verification (new in 2028): Exchanges must offer a pre-enrollment verification window beginning no later than Aug. 1 of the preceding calendar year
- What changes: A month doesn't count as a PTC "coverage month" unless the Exchange verifies key factors: household income, family size, lawful presence, residency and MEC eligibility (HHS may add more)
- No PTC/APTC until verified: You can enroll, but advance payments and claims are suspended until verification is complete

Requiring Verification of Eligibility for The Premium Tax Credit – §71303



- Retroactive credit allowed: Once verified, earlier months can be treated as covered and claimed retroactively
- Special cases: IRS may waive/verifiably modify requirements for family-size changes (e.g., marriage, birth)
- Exchange compliance rule: no credit for any month the exchange fails federal data-reporting standards (§36B(c)(6))

Practice notes

- Advise clients: submit docs early; without verification, APTC = \$0 and no monthly credit accrues
- Track life events promptly to leverage waivers and avoid gaps
- Expect more front-end documentation from exchanges and tighter reconciliation on Form 8962

HSAs Allowed With Bronze & Catastrophic Health Plans – §71307(a) NATP™

- Bronze/Catastrophic now HSA-eligible: ACA Bronze and Catastrophic Exchange plans are treated as HDHPs for HSA purposes (new §223(c)(2)(H)). Applies to months beginning after Dec. 31, 2025.
- Telehealth safe harbor made permanent: Pre-deductible telehealth coverage does not disqualify HSA eligibility; retroactive to the 2025 plan year
- Direct primary care (DPC) fees allowed: HSA funds may pay DPC membership fees tax-free, up to \$150/month (individual) or \$300/month (family); substantiation required
- What didn't make it in: no new permission to contribute if enrolled in Medicare Part A; fitness/wellness expenses remain ineligible HSA uses
- Usual HSA rules still apply: Must have no disqualifying coverage, not be enrolled in Medicare and not be a dependent; contributions reported on Form 8889 (deduction flows through Schedule 1)
- **Practice notes:** Confirm plan documents show HSA-compatible Bronze/Catastrophic; coordinate with 2026 PTC changes for exchange enrollees; keep DPC invoices to track monthly caps

Social Security Fairness Act

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- Effective Jan. 5, 2025 – eliminates windfall elimination provision (WEP) and government pension offset (GPO)
- Impact: restores full Social Security benefits for people with non-covered pensions; affects 3.2M+ retirees (teachers, firefighters, police, certain federal employees)
- Result: removes benefit reductions, increasing monthly payments

- Feb. 25, 2025: SSA paid retroactive benefits and increased monthly benefits for affected beneficiaries
- Retro payment: one-time deposit by end of March 2025, covering increases back to January 2024
- Retroactive payments sent to SSA's bank account on file; some cases required manual processing
- Ongoing payments: Because benefits are paid one month behind, most began receiving new monthly amounts in April 2025 (for March 2025 benefits)
- Beneficiaries were advised to wait until April before inquiring on payment status

- Reduced a worker's own Social Security benefit if they also received a pension from non–Social-Security-covered employment
- Enacted in 1983 to address perceived “windfalls” for people with both covered and non-covered work histories
- How it cut benefits: lowered the first-tier replacement rate on AIME from the standard 90% to as low as 40% (2025), depending on years of substantial covered earnings
- Who it impacted most: many public-sector employees (teachers, police, firefighters, certain federal workers)

How The Benefit Formula Works (2025 Bend Points)

- AIME (average indexed monthly earnings) is split at bend points and multiplied by fixed rates:

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

- Quick illustration:
 - If AIME = \$1,100, standard first-tier amount = $\$1,100 \times 90\% = \$990$
 - Under WEP at the 40% first-tier factor, the same \$1,100 would yield \$440 for that portion (showing the WEP reduction)



What Was the GPO?

- What it did: reduced spousal/survivor Social Security benefits for those with a pension from non–Social Security-covered government work
- Scope vs. WEP: applied to benefits on another's record (current/former/deceased spouse), not the worker's own benefit
- Enacted: 1977, intended to align with the dual-entitlement rule
- Formula: benefit reduced by $\frac{2}{3}$ of the non-covered government pension
- Example: \$1,500 pension $\rightarrow \frac{2}{3} = \$1,000$; \$1,200 spousal benefit $- \$1,000 = \$200$ remaining
- Impact: could fully eliminate spousal/survivor benefits; disproportionately affected public-sector workers, especially women

- Eliminates both WEP and GPO
- Restores full retirement, spousal and survivor benefits
- Retroactive payments issued for benefits from January 2024 onward
- Potential for significant monthly benefit increases (sometimes \$1,000+)
- Large lump sums may raise provisional income, potentially increasing taxation of benefits and affecting Medicare IRMAA (income related monthly adjustment amount) thresholds

SSFA Repeal – Tax Ripple Effect



- Many received retroactive lump-sum payments, which can raise provisional income and trigger more taxable Social Security and IRMAA
- Provisional income = AGI + tax-exempt interest + $\frac{1}{2}$ (Social Security benefits)
- Consider the lump-sum election (LSE) to spread tax on retro benefits over the years earned and potentially reduce the spike

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

- No action needed if SSA already has your mailing address and direct deposit on file
- Log in to your my Social Security account to verify/update mailing address and direct deposit
- Check/update info at ssa.gov/myaccount or by contacting SSA
- Apply for benefits if never applied due to WEP/GPO rules
- Survivor benefit applications must be filed by phone

Lump Sum Election (LSE) Overview



- Purpose: reallocate a current-year SS lump sum to the prior years it covers to reduce current-year taxable income
- Eligibility: Lump sum must include benefits for earlier tax years (see SSA-1099 “Description of Amount in Box 3” by year)
- Found in §86(e); prevents tax spikes from large retroactive Social Security payments
- Allocates benefits to original years owed instead of taxing all in current year

- Do not amend prior-year returns — adjusts current-year liability only
- Requires year-by-year breakdown from SSA-1099 and use of IRS Pub. 915 worksheets
 - Worksheet 1 – provisional income for each prior year = AGI + tax-exempt interest + FEIE/adj + $\frac{1}{2}$ SS
 - Worksheet 2 – taxable SS for those years
 - Worksheet 3 – taxable portion if received in original year(s)
 - Worksheet 4 – compare standard method vs. LSE; choose lower tax
- Reporting: reflect result on Form 1040/1040-SR (check the Line 6c box); keep worksheets/summary with records

LSE Planning Considerations



- Most beneficial if prior years had low income so less of the benefits were taxable
- Less beneficial if prior years already had 85% of benefits taxable
- Important to compare standard vs. LSE method before electing
- **Note:** With higher standard deductions starting in 2025, recognizing benefits in the current year may be better for some taxpayers

When LSE Helps

- LSE is likely beneficial when all are true:
- Lump sum spans multiple years (e.g., 2022–2024) and shows by year on SSA-1099
- Earlier-year income was lower (often under \$25,000 single / \$32,000 MFJ provisional income base)
- Taking all in one year would push 85% of SS taxable, bump brackets, or trigger IRMAA

Common LSE Pitfalls



- Common mistakes to avoid:
 - Reporting the entire lump sum in the current year without LSE analysis
 - Amending prior returns (not needed—LSE is a current-year computation)
 - Not retaining worksheets (keep Pub. 915 calcs for audit)
 - Miscomputing provisional income
- Coordinate with other strategies: Roth conversions, QCDs (70½+), timing itemized deductions, bracket management
- IRMAA watch: 2025 IRMAA starts at \$103,000 single / \$206,000 MFJ; LSE can help stay under tiers

Example — Sarah



- Facts: retired teacher (non-covered pension), age 63. In 2025 receives \$18,000 lump sum covering 2022 (\$5k), 2023 (\$6k), 2024 (\$7k).
Prior-year income each year: \$18,000 pension + \$2,000 interest. 2025 income = \$30,000 (no taxable SS included before LSE).
- Without LSE (all taxed in 2025):
Provisional income = \$30,000 + $\frac{1}{2}(\$18,000)$ = \$39,000 → up to 85% taxable; taxable SS ≈ \$8,750.
Taxable income: \$30,000 + \$8,750 – \$15,000 SD = \$23,750 → ≈ \$2,621 income tax.
- With LSE (spread to 2022–2024 via Pub. 915):
2022 PI \$22,500, 2023 PI \$23,000, 2024 PI \$23,500 → all below \$25,000 (single base) → \$0 taxable SS for each prior year.
Result: \$0 taxable SS via LSE vs. \$8,750 taxable without LSE; prior-year income taxes unchanged (examples: \$703, \$613, \$543).
- Takeaway: elect LSE when lump sum covers prior years and those years had lower income—can cut current-year tax, lower provisional income and limit IRMAA exposure

LSE vs. Other Tax Tools



- Lump-sum election (LSE): Shift retro SS benefits to prior years to lower current-year provisional income and tax.
- Roth IRA conversions: Use low-income years; avoid in the lump-sum year if it bumps brackets/IRMAA
- Qualified charitable distributions (QCDs): age 70½+; send RMDs to charity to reduce AGI and taxable SS
- Standard vs. itemized: Bunch medical/charitable to itemize in high-income years; take standard in others
- Bracket management: time IRA withdrawals, capital gains and SS receipts to stay in lower tiers
- Tactical tip: If a large retro payment hits, consider deferring gains and pausing Roth conversions that year

Medicare IRMAA planning (Why LSE Matters)



- Thresholds (2025): \$103,000 single / \$206,000 MFJ (modified AGI). Even modest AGI increases can raise Parts B/D premiums.
- Risk: Retro SS lump sums can spike provisional income and push clients into higher IRMAA brackets
- Use LSE to manage tiers: Spread retro benefits to prior years to stay under IRMAA thresholds or in lower tiers
- Checklist: Project MAGI, test with vs. without LSE, coordinate QCDs/Roth timing and monitor SSA-1099 amounts by year

Other Implications of Higher SS Benefits



- Estate/beneficiaries: more lifetime income $\Rightarrow$ revisit wills, trusts, beneficiaries
- Charitable capacity: Consider QCDs to offset higher income and manage estate size
- Lifetime tax map: Reassess Roth conversions, RMD strategy and timing of asset sales with higher SS cash flow
- Team approach: Coordinate tax, financial and estate planning to align with post-SSFA income levels

Practitioner Workflow (Action Steps)



- Get documents: SSA-1099 (year breakdown), prior-year returns, current-year income estimates
- Run both ways: Compute SS taxation with and without LSE (Pub. 915 Worksheets 1–4)
- Model impacts: brackets, provisional income, IRMAA tiers, state tax effects
- Choose strategy: LSE only if it reduces total tax/IRMAA; pair with QCDs/ bracket moves as needed
- Document: Keep worksheets or a summary statement with the file (don't amend prior returns for LSE)

Casualty Loss

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- General rule: Personal casualty losses (not investment, business or rental) are nondeductible unless attributable to a federally declared disaster under the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*
- State-declared disasters (new): For tax years beginning after Dec. 31, 2025, state-declared disasters also qualify if the governor (or D.C. mayor) and the Secretary of the Treasury determine the damage is severe and widespread
- What counts as a state-declared disaster: any natural catastrophe (hurricane, tornado, storm, high water, wind-driven water, tidal wave, tsunami, earthquake, volcanic eruption, landslide, mudslide, snowstorm, drought) and any fire, flood or explosion within a state
- “State” includes: The District of Columbia, Puerto Rico, U.S. Virgin Islands, Guam, American Samoa, and the Northern Mariana Islands

Example — State-Declared Wildfire (2026)



- Facts: CA wildfire (state emergency only), unreimbursed personal property loss \$50,000; AGI \$100,000; itemizes
- Computation: $\$50,000 - \$100/\text{event} = \$49,900$; then $- 10\%$ of AGI ($\$10,000$) = $\$39,900$ deductible
- Result: $\$39,900$ itemized on Schedule A for 2026

- Who qualifies (window): major disasters the president declared 1/1/2020–2/10/2025 with incident periods beginning on/after 12/20/2019 and ending no later than 1/11/2025
- Relief vs. normal rules:
- Eliminates the 10% of AGI floor; applies a \$500 per-event threshold instead
- Allows an above-the-line casualty loss (you can claim it even if you don't itemize)
- How to identify a qualifying disaster: Use FEMA's Disaster Declarations page to filter by year, state/territory, disaster type and declaration type; capture the disaster number (e.g., 4586 for TX Winter Storm 2021)
- Forms: Include the disaster number on Form 4684 and on Form 1040-X if amending



- Excludable from income: Payments for losses/expenses from a federally declared forest or range fire (housing, certain lost wages not paid by an employer, personal injury, death, emotional distress, etc.) to the extent not reimbursed by insurance or otherwise
- No double benefit: No deduction/credit for amounts paid with excluded funds; no basis increase for property acquired or improved with excluded amounts
- Timing and claims: Applies to amounts received after 12/31/2019 and before 1/1/2026. For refunds tied to these exclusions, the limitations period will not expire earlier than one year after enactment (other §6511(b)(2) limits still apply).



East Palestine, Ohio Settlement — Tax Treatment & Reporting

- Settlement overview: \$600 million total (~\$120 million for personal injury); admin: Kroll Settlement Administration, LLC (1-833-425-3400; ; eastpalestinetrainsettlement.com)
- Eligibility (claims closed 8/22/2024):
- General compensation: within 20 miles of the site
- Personal injury: within 10 miles
- Payment factors: Proximity, household size, duration/nature of displacement, severity of property damage, documented physical/mental health impacts
- Non-taxable components (generally §104(a)(2)): Personal injuries/sickness; emotional distress tied to physical injury; property damage reimbursements; temporary displacement/evacuation costs; health impacts from exposure
- Potentially taxable components: lost wages or business income; punitive damages (none included in this class settlement as of your note)



East Palestine, Ohio Settlement — Tax Treatment & Reporting

Reporting:

- Non-taxable: typically no Form 1099; not reported
- Taxable: may receive Form 1099-MISC; report on Schedule 1 (Form 1040) as applicable
- Keep records: determination letters, reimbursement statements and all Kroll correspondence



IRS Guidance — Tax Treatment of Settlement Payments (East Palestine)

Non-taxable (generally excludable under §104(a)(2))

- Compensation for personal injuries/sickness
- Emotional distress attributable to a physical injury
- Property damage reimbursements
- Temporary displacement/evacuation costs
- Health-related impacts from chemical exposure or stress
- Potentially taxable
- Lost wages or business income (ordinary income)
- Punitive damages (none included in this class settlement as of your note)



IRS guidance — Tax Treatment of Settlement Payments (East Palestine)

Practitioner guidance

- Classify the payment by nature: if it replaces income, it's taxable
- Business/trust recipients: review separately; rules may differ
- Unsure? Seek formal guidance or consider a PLR.



Amended Returns — Tax Benefit Rule

- If you claimed a casualty loss for derailment damages and later received reimbursement, amend the earlier year (Form 1040-X) to reduce/eliminate the deduction under §111
- If no prior deduction and the payment is non-taxable, no amendment is needed
- If any portion is taxable and relates to a prior year, you may need to amend that year to report income
- Unsure if a payment is taxable? Review the determination letter or contact the administrator.



Amended Return Example — Settlement Reimbursement



- Facts: 2023 return claimed \$8,000 casualty loss (derailment). In 2024, taxpayer receives \$6,000 reimbursement
- Action: File Form 1040-X to adjust 2023—reduce/eliminate the prior deduction (or increase income) to reflect the reimbursement
- No prior deduction? If no loss was claimed and the payment is non-taxable, no amendment is needed.

Exceptions and considerations

- Any taxable portion? If part of the payment is taxable (e.g., lost wages or business income) and relates to a previously filed year, amend that year to report the income.
- No 1099 issued? Check the determination letter or contact the settlement administrator to confirm taxability and reporting.

Filing Relief for Natural Disasters Act (FRNDA)

- Enacted: July 24, 2025
- What it does: Authorizes the Secretary of the Treasury to postpone tax deadlines for taxpayers in state-declared emergencies (even without a federal declaration)
- Extended window: Expands the mandatory postponement period from 60 days to 120 days



SECURE 2.0 — What's Coming in 2025 & 2026

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Secure 2.0 Highlights

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



2025 — Higher Catch-Ups for Ages 60–63

- Applies if the participant is age 60, 61, 62, or 63 during the calendar year (and the plan allows catch-ups)
- SIMPLE 401(k)/SIMPLE IRA: catch-up = greater of \$5,000 or 150% of the 2025 age-50 SIMPLE catch-up → \$5,250 ($150\% \times \$3,500$)
 - Total possible employee contribution (2025): $\$21,750 = \$16,500 + \$5,250$
 - Indexed for inflation beginning 2026
- All other qualified plans: catch-up = greater of \$10,000 or 150% of the 2024 age-50 catch-up → \$11,250 ($150\% \times \$7,500$) for 2025
 - Total possible employee contribution (2025): $\$34,750 = \$23,500 + \$11,250$
 - Indexed for inflation beginning 2026
- Note: The year the participant turns 64, only the age-50 catch-up applies. If the plan doesn't offer catch-ups, the participant cannot make them
- Effective: taxable years after 12/31/2024



Example (2025): Elective Deferrals By Age

Item	Marcus (45)	Harper (50)	Joey (60)
Compensation	\$100,000	\$100,000	\$100,000
Employee deferral	\$23,500	\$31,000 (= \$23,500 + \$7,500)	\$34,750 (= \$23,500 + \$11,250)
Employer match (4%)	\$4,000	\$4,000	\$4,000
Total addition	\$27,500	\$35,000	\$38,750

Effective date (these 2025 items): taxable/plan years beginning after Dec. 31, 2024.



- Applies to most new 401(k)/403(b) plans (established on/after 12/29/2022)
- Plan years after 12/31/2024: employees are automatically enrolled once eligible unless they opt out
- Must include an EACA under §414(w)(3):
 - Uniform default deferral rate (unless employee elects out/changes rate)
 - Permissible withdrawals within 90 days of the first automatic contribution
 - Default deferral: at least 3% up to 10% in year 1; auto-increase +1% annually to at least 10% (max 15%) unless changed by the employee
 - QDIAs used for default investing unless employee elects otherwise
- Exempt plans (§414A(c)): SIMPLE 401(k), grandfathered plans (pre-12/29/2022), government/church plans, <3-year employers, and <11 employees
- Proposed regs (2025) clarify scope and that no eligible employee group (e.g., LTPTEs) can be excluded when §414A applies
- Effective: Plan years after 12/31/2024 (final regs apply 6+ months after issuance; until then, reasonable good-faith compliance)



-
- Julia joins in 2025; plan auto-enrolls at 3%
 - 2026: auto-increase to 4%, and so on, until the plan's cap (12% here), unless Julia elects differently or opts out



2025 — Expanded Coverage for Long-Term Part-Time Employees (LTPTEs)

- ERISA-covered 401(k)/403(b) plans with salary deferrals must allow LTPTEs to make elective deferrals
- Eligibility (whichever occurs first):
 - 1,000 hours in a 12-month period + age 21, or
 - 500 hours in two consecutive 12-month periods + age 21 (LTPTE rule; shortened from three years)
- Entry timing for LTPTEs: the earlier of 1st day of the first plan year after requirements met, or six months after requirements met
- Tracking tip: Some sponsors may simply allow all part-time employees to defer to avoid tracking complexity
- LTPTEs need not receive employer matches, but employers may choose to include them
- Effective: plan years after 12/31/2024
- Notes: Guidance addresses nondiscrimination coordination (e.g., Notice 2024-73; 2023 proposed regs for 401(k) LTPTE treatment)



Example — LTPTE (Daisy)

- Daisy hired 1/1/2022, age 21 in 2021, works 600 hours/year
- Hours: 600 in 2023 and 600 in 2024 → meets two-year 500-hour LTPTE rule
- Considered to meet age/service on 1/1/2025 (effective date)
- Entry deadline: earlier of 7/1/2025 (six months after) or 1/1/2026 (first plan year start)
- Result: Daisy must be allowed to defer by 7/1/2025



- DOL to create an online, searchable database for participants/beneficiaries to locate plans and administrator contacts
- Employers must report to DOL to keep listings current
- Statute: database no later than two years after enactment → target 12/29/2024; latest status via Federal Register notice (you provided)
- Effective: creation deadline per statute; operational date TBD



- Catch-ups to 401(k)/403(b)/gov't 457(b) must be Roth if prior-year FICA wages > \$145,000 (indexed)
- Stated simply: If prior calendar-year wages exceed the threshold, age-50+ catch-ups must go to a designated Roth account
- Effective: taxable years after 12/31/2025



- Defined contribution plans: must provide at least one paper statement annually unless the participant elects otherwise
- Must include: current value of each investment (incl. employer securities) and lifetime income illustrations shown at least every 12 months
- Defined benefit plans: must provide one paper statement every three years
- Effective: plan years after 12/31/2025



2026 — Retirement Funds for Long-Term Care (LTC) Insurance

- Plans may allow qualified LTC distributions [§401(a)(39)]:
 - Used to pay premiums for certified LTC insurance
 - Annual limit (2025): \$2,600 (indexed), or actual premiums paid, or 10% of the vested account—whichever is less
- What counts as certified LTC coverage:
 - Qualified LTC insurance contract [§7702B(b)] (stand-alone LTC)
 - Life insurance rider [§101(g)(3)] (benefits if chronically ill)
 - Insurance/annuity rider [§7702B(e)] (treated as separate contract; must meet §7702B(g) consumer protections)



2026 — Retirement Funds for Long-Term Care (LTC) Insurance

- Tax and penalties: generally taxable income; **10% early-withdrawal penalty does not apply if requirements met [§72(t)(2)(N)]
- Spousal premiums: 10% penalty exception for paying spouse's premiums applies only if MFJ [§72(t)(N)(ii)]
- Documentation: Participants must submit an LTC premium statement; the issuer must file an information return with IRS by Feb. 1 of the following year [§6050Z]
- Effective: distributions after 12/29/2025



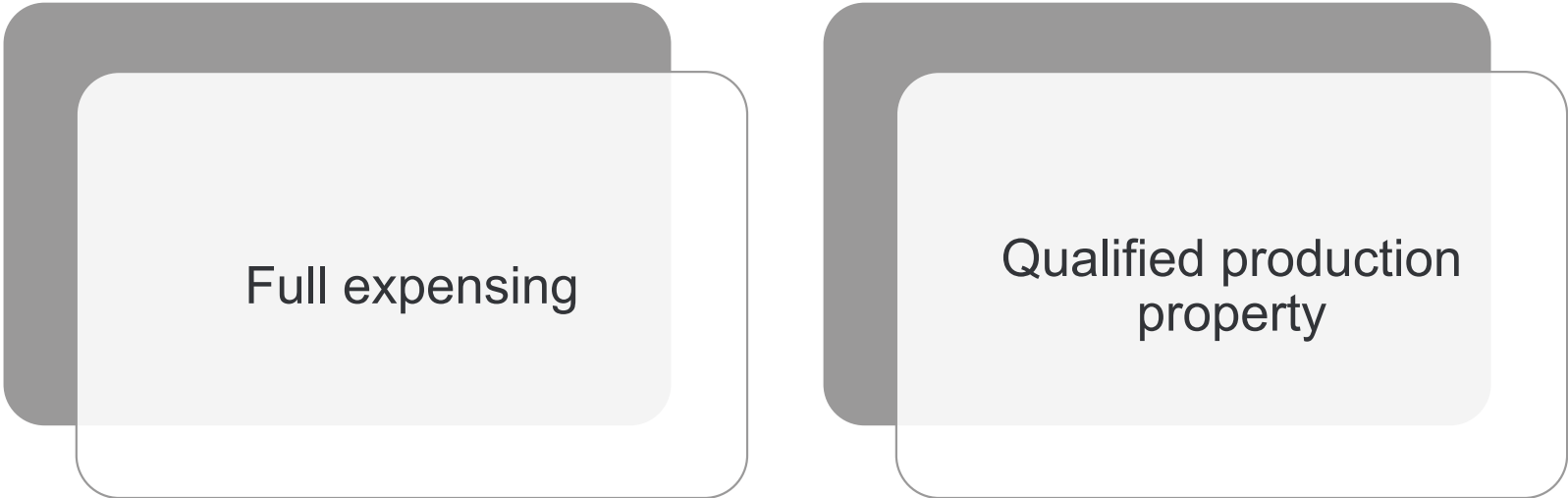
Business Updates

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Bonus Depreciation



The diagram consists of two identical graphic elements side-by-side. Each element features a dark gray rounded rectangle in the background, with a light gray rounded rectangle centered on top of it. The text is centered within the light gray rectangle. The left light gray rectangle contains the text 'Full expensing', and the right one contains 'Qualified production property'.

Full expensing

Qualified production
property



Full Expensing — §70301 (Permanent 100% Bonus)

- What changed: §168(k) now a flat 100%; old phase-down rules repealed (§168(k)(6), (k)(8))
- Plants: §168(k)(5) expanded—specified plants (fruit/nut trees, >2-yr pre-productive) now always eligible
- Conforming change: §460(c)(6)(B) — only property with ≤ 7 -year recovery qualifies under LTC rules
- Effective: Applies to property acquired after Jan 19, 2025
- Transitional election (first tax year ending after Jan 19, 2025):
 - 40% general qualified property
 - 60% longer production/certain aircraft
 - 40% specified plants
- Takeaway: No amending 2023/2024. Property acquired before Jan 20, 2025, follows TCJA phase-down (generally 40% in 2025 unless an exception applies).



Special Depreciation for Qualified Production Property — §70307

- What it is: New §168(n) allows 100% bonus for nonresidential real property used integrally in a qualified production activity (agricultural/chemical manufacturing/refining)
- Qualify only if all:
 - Nonresidential real property
 - Integral to production
 - U.S./U.S. possession use
 - Original use with taxpayer (limited idle-use exceptions)
 - Construction between Jan 20, 2025-Dec 31, 2028
 - Placed in service by Dec 31, 2030
 - Election made on the return; identify portion subject to the election (§168(n)(6))



Special Depreciation for Qualified Production Property — §70307

- Not eligible: software development, engineering, research, lodging, office, retail
- Limits: no mixed-use (allocate); 10-year recapture if converted to non-qualifying use (§1245); ADS property excluded; election binding (IRS consent to revoke)
- Effective: Applies to property placed in service after July 4, 2025



- **New caps (from 2025):**
 - Deduction limit: \$2.5M
 - Phaseout threshold: \$4M (dollar-for-dollar reduction)
 - Fully phased out at \$6.5M placed in service
- **Indexing:** From 2025, both limits indexed using 2024 as base year (SUV base year unchanged at 2017)
- **Effective:** Property placed in service in tax years after Dec 31, 2024
- **Planning:** Bigger first-year deductions; more mid-sized filers qualify; monitor annual inflation updates



Example — XYZ Manufacturing Qualified Production Property (§168(n))

- Timeline: start March 2026 → complete October 2028 → in service Nov. 1, 2028
- Facts: new MACRS nonresidential real property that houses equipment integral to XYZ's agricultural production in the U.S
- Why it qualifies:
- Built within 1/20/2025-12/31/2028; in service before 1/1/2031; integral to qualified production; original use with XYZ
- Election and result: XYZ elects §168(n) on its 2028 return, identifies the qualifying portion, and deducts 100% of that facility's cost in 2028 (instead of depreciating over 39 years)



Example — ABC Effective Date (Binding Contract)

- Facts: Jan. 18, 2025, ABC signs a written binding contract to buy a factory; takes possession Jan. 25, 2025
- Why not eligible for §168(n):
 - Property wasn't constructed during 1/20/2025-12/31/2028
 - Placed in service before the §168(n) effective date (must be after July 4, 2025)
 - Binding contract predates Jan. 20, 2025, window
- Result: ABC may not elect the §168(n) special 100% allowance; standard rules apply (generally 39-year MACRS for nonresidential real property)



Limitations

- 10-year recapture: Conversion to non-qualifying use within 10 years triggers §1245 recapture
- ADS property excluded
- Election is binding; revocation requires IRS consent (extraordinary cases)



Example — Jones Manufacturing §179 computation

- Facts (2025): qualifying §179 property placed in service = \$5.8M
 - Max §179 limit deduction: \$2.5M
 - Phaseout excess: $\$5.8\text{M} - \$4.0\text{M} = \$1.8\text{M}$
 - Allowed §179: $\$2.5\text{M} - \$1.8\text{M} = \$700,000$
 - Remaining basis: $\$5.8\text{M} - \$0.7\text{M} = \$5.1\text{M} \rightarrow$ recover via MACRS/ADS
- Result
 - §179 deduction (2025): \$700,000
 - Depreciable remainder: \$5,100,000
- Takeaway: Higher limits preserve a \$700k immediate deduction that would have been lost under prior caps



Planning Takeaways

- Time acquisitions: 100% bonus applies to property acquired after 1/19/2025; consider post-1/19 closings
- Timing window (must hit both): Begin construction after 1/19/2025 and before 1/1/2029, and place in service before 1/1/2031
- Scope of QPP: Only the portion of nonresidential real property that's an integral part of a qualified production activity, original use begins with the taxpayer, in the U.S./possessions, and designated in the election
- Allocate carefully for mixed-use facilities; document the qualifying portion



Form 1099-K — De Minimis Restored (§70432)

- What changed: Reverts to \$20,000+ AND >200 transactions for TPSO reporting (amended §6050W(e))
- Backup withholding: Aligned with the restored thresholds (§3406(b)(8)). If the payee was reportable last year, BWH can still apply this year even if they don't meet thresholds.
- New tip box (TY 2026): 1099-K will include a separate tips box for amounts collected/dispensed via platforms
- Effective dates:
 - Threshold restoration is retroactive (as if part of ARPA §9674)
 - Backup withholding changes apply to calendar years after 12/31/2024
- Practice notes: Update payer/payee procedures; warn gig/service clients about the tips box starting 2026



- Phase-in ranges expanded (§199A(b)(3))
 - Single/MFS/HOH: \$75,000 (up from \$50k)
 - MFJ: \$150,000 (up from \$100k)
 - 2025 thresholds for reference (pre-change): Single/MFS/HOH \$197,300–\$247,300; MFJ \$394,600–\$494,600
- Minimum deduction for active businesses (§199A(i)):
 - \$400 minimum if QBI $\geq$ \$1,000 and taxpayer materially participates (§469(h))
 - Indexed beginning 2027 (rounded to nearest \$5)
- Protections preserved: §199A not limited by §68 itemized deduction rules; coop patron protections remain
- Note: Qualified business losses (QBLs) must be applied—even across different businesses



QBI Changes at a Glance

Provision	Pre-2026 Law	OBBBA (2026 and After)
Phase-in range (single / joint)	\$50k / \$100k	\$75k / \$150k
Minimum QBI deduction	None	\$400 (if QBI $\geq$ \$1,000, active)
Inflation adjustment (min. deduction/QBI)	Not applicable	Yes , from 2027
Itemized deduction limitation (§68)	Not applicable	Not applicable
Effective date	Through 2025	Tax years after 12/31/2025



Example — §199A in 2026 (Enhanced Rules)

- Becky (single, 2026):
- Facts:
 - Filing status: Single (TY 2026)
 - QBI: \$20,000 (sole proprietor; non-SSTB)
 - W-2 wages / UBIA: \$0 / \$0
 - Taxable income (pre-QBI): \$200,000 (no capital gains assumed)
 - Material participation: yes (not required for standard §199A, but relevant to new minimum rule)

Example — §199A in 2026 (Enhanced Rules)



Steps:

- Threshold and window (2026): Single phase-in window = \$75,000 above the §199A threshold
 - For illustration, take threshold \$200,000 → window ends \$275,000
 - TI = \$200,000 → at threshold → wage/UBIA limit does not apply
- Tentative QBI deduction: $20\% \times \$20,000 = \$4,000$
- Overall cap: 20% of taxable income (pre-QBI, no CG) = $20\% \times \$200,000 = \$40,000$ → cap not binding
- Minimum rule check (new §199A(i)): $\text{QBI} \geq \$1,000$ and $\text{deduction} \geq \$400$ → minimum not needed
- Result
- Allowed §199A deduction (2026): \$4,000

Example — §199A minimum deduction applies (2026) NATP™

- Facts: Jill
 - Filing status: single; materially participates (active business)
 - QBI: \$1,200; business is non-SSTB
 - Assume no capital gains and taxable income high enough that overall caps don't bind
- Steps
 - Standard calc: $20\% \times \$1,200 = \$240$
 - Minimum rule check (§199A(i)): $\text{QBI} \geq \$1,000$ and active participation → minimum = \$400 applies
 - Compare and choose: \$240 (standard) vs \$400 (minimum) → take \$400
- Result
 - Allowed §199A deduction (2026): \$400

- What's new
 - Immediate deduction for domestic research and experimental (R&E) expenditures paid or incurred in tax years beginning after 12/31/2024
 - Overrides §263A capitalization for these costs
 - Software development costs are treated as R&E and qualify for the deduction
 - Foreign R&E (as in §41(d)(4)(F)) is excluded and remains 15-year amortization under amended §174
- General rule: applies to costs paid/incurred in tax years beginning after 12/31/2024
- Property disposition rule: applies to events after 5/12/2025
- Credit coordination: applies beginning in 2025



Who Qualifies

- Any taxpayer engaged in a trade or business incurring domestic R&E
- Foreign R&E expenditures (e.g., wages/supplies performed outside the U.S.) do not qualify for §174A deduction



- May elect to capitalize §174A-eligible costs and amortize ≥ 60 months, beginning in the month benefits first realized
- Make election by the return due date (incl. extensions); consistent use required in later years unless IRS approves a change
- Procedural details TBD; expect an attached statement



Excluded Expenditures — §174A(d)

- Land acquisition/improvement; depreciable property used in R&E
- Exploration for natural resources (oil, gas, minerals)
- Foreign research expenditures



Method Changes & Transition

- Switching to §174A deduction is a method change under §481 but no Form 3115 is required; applies prospectively to tax years beginning after 12/31/2024
- Modified cut-off applies for fiscal years beginning after 12/31/2024 but ending before enactment
- Small-business retro election: Taxpayers meeting the §448(c) gross-receipts test may elect to apply §174A to tax years beginning after 12/31/2021 (within one year of enactment), using amended returns; treated as an automatic-consent method change
- Previously capitalized domestic R&E (2022–2024): Deduct remaining unamortized amounts in 2025, or ratably over two years starting in 2025; no §481(a) adjustment



Coordination With The Research Credit

- §41(d)(1)(A) now references §174A → only domestic R&E counts as qualified research expenses for the credit; software is included
- If a research credit is claimed, reduce the §174A deduction by the amount of the credit (no double benefit)



Planning Implications (Talking Points)

- Domestic-shift incentive: Moving projects on-shore may unlock current deductions and credit alignment
- Software capitalization is gone for domestic dev—expense now unless electing 60-month amortization
- Foreign projects: Budget for 15-year amortization; consider cost-sharing/footprint changes
- Credit/deduction ordering: Forecast §41 credit and §174A deduction interaction; model the reduction
- Method change logistics: Calendar-year filers flip to §174A in 2025; evaluate retro election (small businesses) and 2022–2024 unamortized pools for 2025 write-off vs. two-year spread



Exception to PCM for residential construction — §70430

- What changed
 - Replaces “home construction contract” with “residential construction contract,” expanding the PCM exception to multi-family dwellings and similar residential structures
 - Time test updated: For non–single-family residential projects, the project completion threshold increases from two years → three years under §460(e). (Single-family projects remain on the two-year test.)
- Technical updates
 - Conforming amendments: §460(e) paragraph (5) → (4); cross-references revised
 - §56 terminology updated to reflect “residential construction contract”
- Effective date
 - Contracts entered into in tax years beginning after July 4, 2025



Implications

- More residential builders can avoid PCM (percentage-of-completion), which recognizes income as work progresses
- Eligible projects may use more favorable methods (e.g., completed-contract method CCM), deferring income until project completion
- Tax planning impact
 - Reduces complexity and broadens deferral options for residential builders
 - Especially beneficial for multi-unit housing and other non-single-family residential developments



Quick Eligibility Snapshot (for 2025+ Contracts)

- Property type: residential (now includes multi-family and similar)
- Duration:
 - Single-family: up to two years
 - Non-single-family: up to three years
- If the project fits, consider CCM or other non-PCM methods to optimize timing of income



QSBS Gain Exclusion — §70431 (Updated §1202)

- **Who/what qualifies**
 - Investor: noncorporate holder; stock acquired at original issuance from a domestic C corporation (not S corporation/partnership; no secondary purchases)
 - Issuer: qualified small business (QSB) at issuance—gross assets $\leq$ \$75M (was \$50M), measured before and immediately after issuance; $\geq$ 80% assets used in active qualified trades
 - Excluded trades: law, health, consulting, accounting, financial services, farming, mining/natural resources, hotels/motels/restaurants
- **Tiered exclusion for post-enactment stock (acquired after Jul 4, 2025)**
 - Three years: 50% gain excluded
 - Four years: 75% gain excluded
 - Five years: 100% gain excluded (holding period per §1223)



QSBS Gain Exclusion Cont.

- Legacy stock (acquired on/before July 4, 2025)
- Keep prior framework (generally >five years)
- Quick 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



QSBS Gain Exclusion Cont.

- Per-issuer caps
 - Post-7/4/2025 stock: lifetime per-issuer cap \$15M (indexed from 2027, base year 2025; rounded to nearest \$10,000)
 - Legacy stock: cap remains \$10M
 - MFS: caps halved (\$7.5M post-7/4/2025; \$5M legacy)
 - Once a taxpayer exceeds the cap for an issuer, no further exclusion for that issuer in future years
- AMT preservation (legacy)
 - QSBS acquired on or before the 2010 Jobs Act enactment remains exempt from AMT (applies as if enacted in 2010)
- Effective dates
 - Changes apply to tax years beginning after Jul 4, 2025
 - AMT preservation applies retroactively as if part of 2010 law



Example — Tiered QSBS Exclusion (Emma)



Facts:

- Acquisition: 8/1/2025 — 100,000 QSBS shares at \$1 (basis \$100,000)
- Sales: all at \$10/share
 - 30,000 shares on 8/2/2028 (held three years)
 - 30,000 shares on 8/2/2029 (held four years)
 - 40,000 shares on 8/2/2030 (held five years)

Example — Tiered QSBS Exclusion (Emma)



- Calculation:
 - 2028 sale (three yrs):
Gain = $30,000 \times (\$10 - \$1) = \$270,000 \rightarrow 50\%$ excluded = \$135,000; \$135,000 taxable
 - 2029 sale (four yrs):
Gain = \$270,000 $\rightarrow 75\%$ excluded = \$202,500; \$67,500 taxable
 - 2030 sale (five yrs):
Gain = $40,000 \times \$9 = \$360,000 \rightarrow 100\%$ excluded; \$0 taxable
- Totals across all sales
 - Total gain: $\$270,000 + \$270,000 + \$360,000 = \$900,000$
 - Excluded: $\$135,000 + \$202,500 + \$360,000 = \$697,500$
 - Taxable: \$202,500 (subject to per-issuer cap monitoring)

Takeaways

- Confirm original-issuance and QSB status at issuance; maintain gross-assets and 80% active business documentation
- Track per-issuer caps across years; note MFS halves
- Watch inflation indexing from 2027



Business Interest Limitation — What Changed (OBBA) §70341

- Ordering rule updated (§70341): Apply §163(j) first, then apply any capitalization rules (e.g., §263A)
- Use of allowed interest: First capitalize amounts required under other provisions; any remainder is deductible
- Carryforwards protected: Prior-year disallowed interest (carried forward) is not subject to capitalization
- Effective: tax years beginning after 12/31/2025



Adjusted Taxable Income (ATI) — Foreign Add-Backs (§70342)

- ATI base (refresher): taxable income excluding nonbusiness items, business interest income, NOLs, §199A and before depreciation/amortization/depletion (see EBITDA slide)
- New add-backs to ATI:
 - Subpart F inclusions (§951(a))
 - GILTI (§951A(a))
 - §78 gross-up
 - Related portions of §245A(a) and §250(a)(1)(B) deductions
- Purpose: Prevent foreign inclusions/deductions from artificially lowering ATI and tightening §163(j) unnecessarily
- Effective: tax years beginning after 12/31/2025



EBITDA Restored & Permanent + Floor Plan Expansion (§70303)

- Permanent EBITDA rule: ATI is computed on an EBITDA basis (adds back depreciation, amortization, depletion), increasing potential interest deductibility under §163(j)
- Floor plan financing broadened: Definition now includes trailers and campers used as temporary living quarters, treated like motor vehicles for the floor plan financing exception
- Practical impact:
 - Capital-intensive businesses (manufacturers, utilities) gain higher ATI → more interest allowed
 - Trailer/camper dealerships avoid interest disallowance on inventory financing
 - Encourages long-lived asset investment with less §163(j) drag



Timeline & Coordination (Quick Reference)

- 2026 and forward (calendar-year filers):
 - Order of operations flips: §163(j) → capitalization
 - ATI includes foreign add-backs (Subpart F/GILTI/§78/portions of §245A, §250)
 - EBITDA method permanent; floor plan exception expanded
- Carryforwards: Pre-2026 §163(j) disallowed interest remains carryforward; not capitalized when used



Practitioner Checklist

- Model the new order: Compute §163(j) before §263A capitalization; allocate allowed interest to capitalization first
- Rebuild ATI: Add back Subpart F, GILTI, §78 and related §245A/§250 components when deriving ATI
- EBITDA now standard: Ensure depreciation/amortization/depletion are added back to ATI permanently
- Inventory financing: Identify floor plan interest for trailers/campers (temporary living quarters) as eligible
- Forecast impacts: Capital-intensive clients likely see higher interest capacity; revisit debt structure, capex plans, and state conformity



C Corporation Charitable Contributions — §70426

What changed

- Adds a 1% floor: A C corporation's charitable deduction is allowed only to the extent total gifts exceed 1% of taxable income (TI)
- 10% cap remains: Total deduction still limited to 10% of TI (as under prior law)
- Net effect: No tax benefit for the first 1% of TI given; only the excess over 1% is potentially deductible (subject to the 10% cap)



C Corporation Charitable Contributions — §70426

Carryforwards

- General rule: Contributions exceeding the 10% cap may be carried forward for five years
 - New caveat: Amounts disallowed solely because they do not exceed the 1% floor may only be carried forward if the 10% limit was also exceeded in that year
 - FIFO: Contributions are treated as used in the order made
 - NOL interaction: Charitable carryforwards cannot inflate NOLs and must be reduced if they would otherwise increase an §172 NOL

Effective date:

- Tax years beginning after Dec. 31, 2025
- Planning implication
 - Corporations making contributions near or below 1% of income will lose deductibility for those amounts, potentially reducing the incentive for charitable giving



Farmland Sales Installment Tax Payment Election — §70437 Overview

- New §1062(a) lets taxpayers elect to pay federal income tax on capital gain from a sale/exchange of qualified farmland property to a qualified farmer in four equal annual installments
- Applies only to the portion of net income tax attributable to the gain (net income tax for the year minus net income tax without the recognized gain)
- Timing only: Gain is still recognized in the year of sale (§1001)
- Distinct from §6159 IRS installment agreements
- Sales/exchanges in tax years beginning after July 4, 2025



Farmland Sales Installment Tax Payment Election — §70437 Election & Payment Mechanics

- First installment due: original due date of the return for the year of sale (no extensions)
- Next three installments due: the return due dates for each of the next three tax years
- Election deadline: original return due date for year of sale (excluding extensions)



Farmland Sales Installment Tax Payment Election Acceleration Triggers— §70437

- Missed payment → entire outstanding balance becomes immediately due
- Individuals: any remaining liability accelerates at death and is due with the final return
- C-corps, estates, trusts: liquidation, cessation of business or sale of substantially all assets accelerates liability, unless the buyer assumes liability under a written agreement with IRS
- Deficiency related to the gain is allocated across installments; the prorated amount is immediately due



Farmland Sales Installment Tax Payment Election Eligibility— §70437

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



Farmland Sales Installment Tax Payment Election Pass-through Ownership & Related Parties — §70437

- For partnerships and S corporations, the election is made at the partner/ shareholder level
- IRS regulations expected to provide further guidance on pass-through elections
- Permitted as written: election appears available for related-party sales if the buyer is a qualified farmer and the property meets the qualified farmland definition
- Watch for future guidance; due diligence needed to confirm buyer's farming qualifications



Farmland Sales Installment Tax Payment Election Takeaways — §70437

- Provides payment-timing flexibility, not tax forgiveness
- Deed restriction supports ongoing agricultural use and may fit conservation/generational transfer goals
- Useful cash-flow tool for retiring farmers or families exiting farming
- Document the 10-year lookback and 10-year forward-use restriction carefully to qualify



Clarification On Payments From Partnerships To Partners For Property Or Services – §70602

What changed

- §707(a)(2) amended to remove the phrase “under regulations prescribed except as provided”
- Provision now applies directly on its statutory language—no need to await Treasury regulations

Effective date

- Services performed or property transferred after July 4, 2025

Observation

- Review partner payment arrangements formed after enactment to assess resemblance to disguised non-partner transactions
- Proactively address documentation and structure to mitigate recharacterization risk



Clarification On Payments From Partnerships To Partners For Property Or Services – §70602

Implications

- Partner payments for services or property may be evaluated on the face of §707(a)(2)
- If facts indicate the payment resembles one to a non-partner, the IRS may treat it as such, potentially triggering income recognition and altered treatment for both the partner and the partnership



New Expensing for Sound Recordings — §70434

What changed

- §181(a)(1) now covers qualified sound recording productions → taxpayers may deduct production costs in the year incurred, aligning with film/TV/live theatrical treatment (subject to requirements)
- Deduction limits
- §181(a)(2)(C): Deduction capped at \$150,000 per production and \$150,000 per taxable year across all qualified sound recordings
- Qualified sound recording
- As in Title 17 U.S.C. §101 and produced and recorded within the United States (§181(f))

Effective date

- Applicable to productions that begin during a taxable year that ends after July 4, 2025



New Expensing for Sound Recordings —§70434 Cont.

Coordination

- No double benefit: Costs expensed under §181 cannot also be depreciated or amortized

Bonus depreciation

- Qualified sound recording productions also qualify under §168(k) even if costs exceed the §181 cap
- For depreciation, the production is placed in service at initial release or broadcast



New Expensing For Sound Recordings — §70434 Takeaways

- Creates planning opportunities for music/audio production
- U.S.-based projects may gain accelerated cost recovery
- The \$150,000 cap suggests a fit for independent artists, studios and content creators
- For higher-cost recordings, bonus depreciation may supplement expensing
- Timing matters: law applies to productions commencing in taxable years ending after July 4, 2025—consider this in year-end planning and budgeting



Sunsetting of Business Green Energy Tax Incentives — §§70512 & 70513

Overview

- Broad rollback of business clean-energy deductions/credits/accelerated recovery
- Most repeals phase in **2025-2027**; some limits already effective



Sunset of Business Green Energy Tax Incentives — §§70512 & 70513

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



Sunset of Business Green Energy Tax Incentives — §§70512 & 70513

No further increase in advanced energy project credit allocations	Taxable years beginning after July 4, 2025	Statutory limit reached
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- * If a taxpayer acquires a vehicle by having a written binding contract in place and a payment made on or before Sept. 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 Sept. 30, 2025)
- ** 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).



Examples — Business Green Energy Incentives Sunset



- **Example 1**
A developer begins construction on July 15, 2026. Because construction begins after June 30, 2026, the building does not qualify for the §179D deduction.
- **Example 2**
HomeBuild LLC sells a new single-family home on Aug. 1, 2026. The sale is after June 30, 2026, so no §45L credit, even if construction began earlier.
- **Example 3**
Autolease acquires a fleet of EVs on Oct. 15, 2025. Because acquisition is after Sept. 30, 2025, no §30D clean vehicle credit.
- **Example 4**
BrightFuture Enterprises begins wind turbine construction on Jan. 10, 2025, and places them in service in late 2026.
— For the clean electricity investment credit (wind/solar only), property placed in service after Dec. 31, 2025, is not eligible ⇒ no credit for 2026 placed-in-service property.

Sunsetting of Business Green Energy Tax Incentives— §§70512 & 70513 Takeaways

- Most business clean-energy incentives repeal between 2025 and 2027
- To preserve eligibility, begin construction or place in service before the specified cut-off dates
- Foreign ownership/influence/material assistance restrictions may disqualify entities even if other requirements are met
- Document timelines and acquisition details carefully to substantiate claims during transition years



Tax Reform for Small Firearms — §70436

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

Category	Transfer tax (§5811)	Making Tax (§5821(a))
Machine guns	\$200	\$200
Destructive devices	\$200	\$200
Short-barreled rifles (SBRs)	\$0	\$0
Short-barreled shotguns (SBSs)	\$0	\$0
Silencers / suppressors	\$0	\$0
Any other weapons (AOWs)	\$0	\$0

- 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
- Conforming change: §4182(a) amended
- ATF Form 1: Individuals/entities making SBRs, SBSs, suppressors or AOWs owe no making tax



Repeal of One-Month Deferral for SFC Year-Ends — §70352

What changed

- §898(c)(2) repealed. The elective one-month deferral to align an SFC's tax year with the required U.S. year is eliminated.

Who's affected

- Specified foreign corporations (SFCs)—including CFCs and foreign entities with U.S. shareholders—must use the required year, generally that of the majority U.S. shareholder
- The option to use a tax year ending one month later is no longer available

Transition

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

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



Review Question 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



Review Question 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



Review Question 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



Review Question 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



Review Question 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



Review Question 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. Only report the income on Form SSA-2453



Review Question 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



Review Question 8

In 2025, a business places \$5.2 millions 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



Review Question 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



POLLING QUESTION

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THANK YOU

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