

2025 YEAR-END INCOME TAX PLANNING FOR BUSINESSES

INTRODUCTION

H.R. 1, otherwise known as the *One Big Beautiful Bill Act (OBABA)*, which the President signed into law on July 4, 2025, is one of the most significant pieces of legislation since the *Tax Cuts And Jobs Act (TCJA)*. As a result, it's even more important to review year-end income tax planning strategies for 2025. The *OBABA*, among other things, creates tax planning opportunities that should be considered to help reduce your tax bill. As a result, we have included our 2025 year-end income tax planning letter to assist with your planning. We've included selected traditional as well as new planning ideas for your consideration. If you have questions or want to discuss planning ideas not included in our letter, please contact our firm.

Caution! The IRS continues releasing guidance on various important tax provisions. We closely monitor new tax legislation and IRS releases. **Please contact our firm** if you would like an update on the latest tax legislation, IRS notifications, announcements, and guidance or **if you need additional information concerning any item discussed in this letter.**

Be careful! Although this letter contains planning ideas, you cannot properly evaluate a particular planning strategy without calculating the overall tax liability for the business and its owners with and without the strategy. In addition, this letter contains ideas for Federal income tax planning only. **State income tax issues are not addressed.** However, you should consider the state income tax impact of a particular planning strategy. We recommend that **you contact our firm before implementing any tax planning technique** discussed in this letter.

TABLE OF CONTENTS

A Table of Contents begins on the next page to help you locate items of interest.

TABLE OF CONTENTS

INCOME TAX PLANNING FOR BUSINESSES WITH THE ONE BIG BEAUTIFUL BILL ACT	1
THE OBBBA CHANGES DISCUSSED IN DETAIL LATER IN THIS LETTER	1
BONUS DEPRECIATION DEDUCTION INCREASED TO 100% AFTER JANUARY 19, 2025	1
BONUS DEPRECIATION FOR QUALIFIED PRODUCTION PROPERTY	1
EXPANSION OF THE 179 DEDUCTION FOR PROPERTY PLACED-IN-SERVICE AFTER 2024	1
QUALIFIED BUSINESS INCOME (QBI) DEDUCTION	1
THE OBBBA CHANGES NOT DISCUSSED IN DETAIL LATER IN THIS LETTER.....	1
FICA TIP CREDIT EXPANDED	1
DOMESTIC RESEARCH AND EXPERIMENTAL EXPENDITURES DEDUCTIBLE BEGINNING IN 2025	1
CHANGES TO EMPLOYEE RETENTION CREDIT (ERC)	2
BUSINESS INTEREST EXPENSE DEDUCTION LIMITATION UNDER §163(j) ENHANCED AFTER 2024	2
RESIDENTIAL CONSTRUCTION CONTRACTS NOT REQUIRED TO USE PERCENTAGE OF COMPLETION METHOD FOR TAX PURPOSES.....	2
COMMERCIAL CLEAN VEHICLE CREDIT.....	3
ORIGINAL FORM 1099-K REPORTING EXCEPTION RETROACTIVELY REINSTATED	3
EMPLOYER CREDIT FOR PAID FAMILY AND MEDICAL LEAVE	3
1% FLOOR FOR CHARITABLE CONTRIBUTION DEDUCTION FOR CORPORATIONS FOR TAX YEARS BEGINNING AFTER 2025.....	3
QUALIFIED SOUND RECORDING PRODUCTIONS COMMENCING IN TAX YEARS ENDING AFTER JULY 4, 2025, QUALIFY FOR BONUS DEPRECIATION	4
TRADITIONAL YEAR-END TAX PLANNING TECHNIQUES FOR BUSINESSES AS MODIFIED BY THE OBBBA	4
TIMING OF INCOME AND EXPENSES	4
FIRST-YEAR 168(k) BONUS DEPRECIATION DEDUCTION.....	4
SECTION 179 DEDUCTION.....	6
SALARIES FOR S CORPORATION SHAREHOLDER/EMPLOYEES.....	7
S CORPORATION SHAREHOLDERS SHOULD CHECK STOCK AND DEBT BASIS BEFORE YEAR-END	7

MAXIMIZE YOUR 20% DEDUCTION FOR QUALIFIED BUSINESS INCOME (QBI)	8
HIGHLIGHTS OF THE 20% DEDUCTION FOR QUALIFIED BUSINESS INCOME (QBI)	8
CAREFUL WITH EMPLOYEE BUSINESS EXPENSES	11
UN-REIMBURSED EMPLOYEE BUSINESS EXPENSES	11
DEDUCTIONS FOR BUSINESS MEALS	12
OTHER SELECTED YEAR-END PLANNING CONSIDERATIONS FOR BUSINESSES	12
WORK OPPORTUNITY TAX CREDIT	12
PARTNERSHIPS AND S CORPORATIONS IN APPLICABLE STATES SHOULD CONSIDER ELECTION TO ALLOW BUSINESS TO PAY STATE AND LOCAL INCOME TAXES	12
CONSIDER SIMPLIFIED ACCOUNTING METHODS FOR CERTAIN SMALL BUSINESSES	12
DON'T FORGET DE MINIMIS SAFE HARBOR ELECTION TO EXPENSE CERTAIN ASSETS	13
TIMING THE PAYMENT OF YEAR-END BONUSES MAY REDUCE TAXES	13
NO DEDUCTION FOR EXPENSES OF A HOBBY	13
FORM 15397 APPLICATION FOR EXTENSION OF TIME TO FURNISH RECIPIENT STATEMENTS	13
STANDARD MILEAGE RATES EFFECTIVE FOR 2025	13
2026 PLANNING WITH SELECTED ENERGY PROVISIONS	13
ENERGY EFFICIENT COMMERCIAL BUILDING DEDUCTION	13
ENERGY EFFICIENT HOME CREDIT	14
ALTERNATIVE FUEL VEHICLE REFUELING PROPERTY	14
OTHER BUSINESS ENERGY CREDITS	14
FINAL COMMENTS	14

INCOME TAX PLANNING FOR BUSINESSES WITH THE ONE BIG BEAUTIFUL BILL ACT

H.R. 1 otherwise known as the One Big Beautiful Bill Act (**OBBBA**) was signed into law on July 4, 2025, by President Trump. The **OBBBA** makes many of the Tax Cuts And Jobs Act (**TCJA**) provisions, that were set to expire at the end of 2025, **permanent** and introduces **new tax legislation** that should be considered during year-end income tax planning.

THE OBBBA CHANGES DISCUSSED IN DETAIL LATER IN THIS LETTER

Bonus Depreciation Deduction Increased To 100% After January 19, 2025. The **OBBBA** extends the Bonus Depreciation deduction **permanently** and increases the deduction to **100%** for qualified property acquired after January 19, 2025.

Bonus Depreciation For Qualified Production Property. The **OBBBA** allows taxpayers to elect to use the 100% bonus depreciation allowance for **qualified production property**. Qualified Production Property is generally **non-residential real property** (i.e., a building or structural component) **used by the taxpayer** for the manufacturing, production or refining of tangible personal property (i.e., goods) in the U.S., involving a substantial transformation of the property. Generally, the property must be under construction **after January 19, 2025, and before January 1, 2029, and placed-in-service before January 1, 2031.**

Expansion Of The 179 Deduction For Property Placed-In-Service After 2024. The 179 Deduction limitation was scheduled to be **\$1,250,000** and the phase-out threshold was scheduled to be **\$3,130,000** for 2025. The cap for SUVs is **\$31,300** for 2025. **Planning Alert!** For tax years beginning after 2024, the **OBBBA** increases the 179 Deduction limitation to **\$2,500,000** and increases the phase-out threshold to **\$4,000,000**. These increases will be **indexed for inflation** for tax years beginning after 2025. **Note!** The 179 cap for SUVs was **not changed** by the **OBBBA** but will continue to be **indexed** for inflation. The cap remains at **\$31,300** for 2025!

Qualified Business Income (QBI) Deduction. The Qualified Business Income or “QBI” deduction, was set to **expire** for tax years beginning after 2025. **Planning Alert!** The **OBBBA** makes the **20% QBI deduction permanent**. In addition, for tax years beginning after 2025, the **phase-in range** for the W-2 wage and qualified property limitation as well as the SSTB limitation is increased from **\$50,000 (\$100,000 for joint returns)** to **\$75,000 (\$150,000 for joint returns)**.

THE OBBBA CHANGES NOT DISCUSSED IN DETAIL LATER IN THIS LETTER

FICA Tip Credit Expanded. Employers who work in the food and beverage industry with tipped employees may be eligible for the **Federal Insurance Contributions Act (FICA) Tip Credit**. The credit is equal to the amount an employer pays (currently 7.65%) for its portion of **Social Security and Medicare (FICA) taxes** on employee tips during the month attributable to tips in excess of those treated as wages for purposes of satisfying the federal minimum wage. The credit is a **general business tax credit** and is **non-refundable**. However, the unused portion of the credit may be **carried back 1-year and carried forward** a maximum of **20-years**. Prior to 2025, the tip credit was available only for FICA tax paid on tips received from customers in connection with the **providing, delivering, or serving of food or beverages for consumption**. The **OBBBA** expands the FICA tip credit to include employers in the **beauty service businesses of barbering, hair care, nail care, esthetics, or body and spa treatments** if tipping the employees providing these services is **customary**. **Planning Alert!** The eligibility of these beauty service businesses for the FICA tip credit is **effective for tax years beginning after 2024**. Make sure to take advantage of this new credit!

Domestic Research And Experimental Expenditures Deductible Beginning In 2025. Beginning with the 2022 tax year, the **TCJA** eliminated the provision allowing taxpayers to **immediately deduct** research and experimental expenditures. Instead, taxpayers were required to **capitalize and amortize** research and experimental expenditures over a **5-year period**. Foreign research and experimental expenses performed outside the United States were required to be **capitalized and amortized over 15-years**. The **OBBBA reinstates and makes permanent** the deduction for domestic research and experimental expenses for amounts paid or incurred in tax years **beginning after 2024**. **Note!** Taxpayers may elect to

capitalize and amortize domestic research and experimental expenses over a period of at least 60 months. Businesses that properly capitalized and amortized research and experimental expenses after December 31, 2021, and before January 1, 2025, may elect to deduct the remaining expenditures either fully in the first tax year beginning after 2024 or ratably over a 2-year period beginning with the first tax year beginning after 2024. **Note!** Foreign research and experimental expenses performed outside the United States must continue to be capitalized and amortized over 15-years. **Planning Alert!** Under the OBBBA, a small business taxpayer (average annual gross receipts of \$31 million or less for the three years prior to the 2025 tax year) may elect to apply the reinstated deduction retroactively beginning with the 2022 tax year. The election is made by deducting the expenses on amended returns filed by the earlier of the date the statute of limitations expires or July 4, 2026. **Note!** The IRS has issued a revenue procedure providing details for implementing the above options. We will gladly assist you with deciding which of these options produce the most benefit.

Changes To Employee Retention Credit (ERC). The *Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020* created a refundable employee retention credit (ERC) to help employers retain employees during the coronavirus (COVID-19) pandemic. Employers who qualified could claim a refundable employee retention credit (ERC) against their portion of Social Security tax for each calendar quarter, for a portion of qualified wages paid after March 12, 2020, and before July 1, 2021. In addition, qualifying employers could claim a modified ERC against their portion of Medicare tax for qualified wages paid after June 30, 2021, and before October 1, 2021 (before January 1, 2022, for a recovery startup business). Employers claiming the credit were required to reduce their wage expense by the amount of the ERC. Before the OBBBA, employers generally had until April 15, 2024, to file 2020 ERC claims and until April 15, 2025, to file 2021 ERC claims. In addition, the IRS had a 3-year statute of limitations to assess tax on 2020 claims and on claims for the 1st and 2nd quarters of 2021. The IRS had 5 years to assess tax on ERC claims filed for the 3rd and 4th quarters of 2021.

Note! The OBBBA modifies the Employee Retention Credit so that no ERC is allowed and no refund regarding an ERC can be made after July 4, 2025, for the last two quarters of 2021 unless claims were filed by January 31, 2024. The OBBBA also extends the time for the IRS to assess tax related to an ERC claim for the period from July 1, 2021, through December 31, 2021, to 6 years from the later of the date the original return was filed or the date the ERC refund claim was filed. If an ERC is disallowed, taxpayers who reduced wages by the amount of the credit have until the end of this 6-year assessment period to claim a deduction for those wages.

Business Interest Expense Deduction Limitation Under §163(j) Enhanced After 2024. The interest expense deduction for businesses, other than small businesses, is generally limited to the sum of 1) interest income, 2) 30% of adjusted taxable income (ATI), and 3) the floor-plan financing interest to acquire motor vehicles for sale or lease to retail customers for the tax year. ATI is the taxpayer's taxable income excluding income, gain, deduction, or loss not allocable to a trade or business, business interest income or expense, net operating loss deductions, QBI deductions, and for tax years beginning before 2022, depreciation, amortization, or depletion. For tax years beginning after 2021, ATI was no longer calculated by adding back depreciation, amortization, or depletion. Therefore, for many companies the limit on deductible interest expense was reduced after 2021. **Note!** A small business for purposes of the exemption from the §163(j) interest deduction limitation is generally a taxpayer that meets the gross receipts test for using the cash method of accounting (\$31 million or less for 2025). **Planning Alert!** The OBBBA reinstates the addback of depreciation, amortization, or depletion in calculating ATI for tax years beginning after 2024. The OBBBA also modifies the definition of motor vehicles for purposes of deducting floor plan interest after 2024 to include certain trailers and campers designed to be towed by or affixed to a motor vehicle. However, the OBBBA no longer allows certain foreign income and deduction items to be included in calculating ATI for tax years beginning after 2025.

Residential Construction Contracts Not Required To Use Percentage Of Completion Method For Tax Purposes. The OBBBA exempts residential construction contracts from the requirement to use the percentage of completion method of accounting for income tax reporting for contracts entered in tax years beginning after July 4, 2025. A "residential construction contract" means any contract if 80% or more of the estimated total contract costs (as of the close of the taxable year in which the contract was entered

into) are reasonably expected to be attributable to the building, construction, reconstruction, or rehabilitation of, or the installation of any integral component to, or improvements of a house or apartment used to provide living accommodations in a building or structure. A residential construction contract **does not include** a unit in a hotel, motel, or other establishment, if more than one-half of the units are used on a transient basis. Residential construction contracts entered into in a tax year beginning **after July 4, 2025**, are also exempt from the requirement to use the **percentage of completion method for AMT purposes**.

Commercial Clean Vehicle Credit. *The Inflation Reduction Act (IRA)* introduced several credits to help promote clean energy. Under the *IRA*, businesses could claim a **Commercial Clean Vehicle Credit** as part of the general business credit for a qualified commercial clean vehicle **purchased and placed-in-service prior to 2033**. The maximum credit amount for each qualified vehicle was **\$7,500 (\$40,000 for a vehicle with a GVWR of 14,000 or more)**. **Planning Alert!** The *OBBBA* repealed the commercial clean vehicle credit for otherwise qualifying vehicles acquired **after September 30, 2025**.

Original Form 1099-K Reporting Exception Retroactively Reinstated. For calendar years 2010 through 2021, Payment Settlement Entities were required to **file Form 1099-K** annually with the IRS and furnish information to the payees, reporting the gross amount of reportable payment transactions. However, **prior to 2022, third-party settlement organizations (TPSOs)** such as PayPal, Venmo, Cash App, eBay, and Etsy were not required to file Form 1099-K where: **1) the payee had 200 or fewer otherwise reportable transactions during the calendar year and 2) the gross amount of such transactions during the calendar year was \$20,000 or less**. However, the *American Rescue Plan Act* lowered the exception from filing Form 1099-K by TPSOs to gross payments of **\$600 or less, with no minimum number of transactions**. The new **\$600 reporting threshold** was to apply beginning with **2022 transactions**. However, the IRS decided that calendar years **2022 through 2025 would be transition years** and provided filing thresholds of more than \$600 (e.g., **\$5,000 for 2024 and \$2,500 for 2025**). The **2025 calendar year was scheduled to be the final transition year** before the new \$600 reporting threshold would be enforced. The *OBBBA* reinstates the **original filing threshold** for third-party payment settlement organizations effective for **calendar years after 2021**. Therefore, beginning with **calendar year 2022**, third-party payment settlement organizations are required to file Form 1099-K where the payee has **more than 200 otherwise reportable transactions during the calendar year and the gross amount of such transactions during the calendar year was more than \$20,000**. In essence, the *OBBBA* retroactively restores the **200/\$20,000 exception**.

Employer Credit For Paid Family And Medical Leave. Employers who provide paid family and medical leave to their employees may qualify for a credit ranging from **12.5% to 25% of the wages** paid to qualifying employees for up to 12 weeks while on family and medical leave. The credit was originally effective for wages paid in **taxable years beginning after December 31, 2017, and before January 1, 2026**. The *OBBBA* makes the credit for paid family and medical leave permanent. In addition, beginning with the **2026 tax year, employers may elect to claim the credit on wages paid to qualifying employees while on family and medical leave or on a portion of the insurance premiums paid during the tax year on family and medical leave policies** provided for employees. In addition, for tax years beginning after 2025, there is an aggregation rule which requires each member of a controlled group to have a written family and medical leave policy unless the member has a substantial and legitimate reason for failing to provide a written policy. **Planning Alert!** Beginning with the 2026 tax year, employers **may elect to claim the credit on wages paid or on a portion of insurance premiums paid but not both**. If an employer elects to take the credit for a portion of paid leave insurance premiums, the insurance premium expense must be reduced by the amount of the credit.

1% Floor For Charitable Contribution Deduction For Corporations For Tax Years Beginning After 2025. Generally, charitable deductions for contributions made by corporations are **limited to 10% of the corporation's taxable income**. A corporation's charitable contributions over this 10% limitation in any tax year can be **carried forward to the next 5 years**. The *OBBBA* provides a **1% floor** for deductions of charitable contributions made by corporations in tax years **beginning after 2025**. Therefore, after 2025, charitable contribution deductions of corporations are allowed only to the extent the corporation's **charitable contributions are greater than 1% of the corporation's taxable income and do not exceed 10% of the corporation's taxable income**. The amount of charitable contributions **greater than the 10% limitation may be carried forward for 5 years and allowed as a deduction on a first-in, first-out basis**.

These carryforwards are applied after contributions for the current tax year. **Note!** Contributions less than 1% of the corporation's taxable income **may be carried forward only from years in which the corporation's charitable contributions are greater than the 10% limitation.**

Qualified Sound Recording Productions Commencing In Tax Years Ending After July 4, 2025, Qualify For Bonus Depreciation. Qualified sound recording productions are eligible property under §168(k) and qualify for bonus depreciation for productions commencing in **taxable years ending after July 4, 2025.** A recording is deemed placed-in-service at the time of its initial release or broadcast.

TRADITIONAL YEAR-END TAX PLANNING TECHNIQUES FOR BUSINESSES AS MODIFIED BY THE OBBBA

Timing Of Income And Expenses. One traditional year-end tax planning technique for businesses includes reducing current year taxable income by deferring income into later tax years and accelerating deductions into the current tax year. This strategy is beneficial where the income tax rate on the business's income in the following year is expected to be the same or lower than the current year. **Caution!** In the following discussions we include timing suggestions as they relate to traditional year-end tax planning strategies that would cause you to **accelerate deductions into 2025, while deferring income into 2026.** However, for businesses that expect taxable income to be significantly **lower in 2025 than in 2026, the opposite strategy might be more advisable.** In other words, for struggling businesses, a better year-end planning strategy could include accelerating revenues into 2025 (to be taxed at lower rates), while deferring deductions to 2026 (to be taken against income that is expected to be taxed at higher rates).

Planning Alert! The 20% QBI deduction that was first available in 2018 adds another wrinkle to deciding whether to defer or accelerate revenues, and/or to defer or accelerate deductions. As we will discuss, your ability to take maximum advantage of the 20% QBI deduction for 2025 and/or 2026 may, in certain situations, be enhanced significantly if you are able to keep your taxable income below certain thresholds. Consequently, **please keep that in mind** as you read through the following timing strategies for income and deductions.

First-Year 168(k) Bonus Depreciation Deduction.

- **The OBBBA Changes.** Traditionally, a popular technique used by businesses to maximize current-year deductions has been to take advantage of the **First-Year 168(k) Bonus Depreciation deduction.** The TCJA temporarily increased the 168(k) Bonus Depreciation deduction to 100% for qualifying property acquired and placed-in-service **after September 27, 2017, and before January 1, 2023.** For property placed-in-service in 2023, the bonus depreciation deduction decreased to 80%, then 60% in 2024, was scheduled to drop to 40% in 2025, and would have been completely phased out for property placed-in-service after 2026. **Note!** The reduction in the 168(k) Deduction percentage occurs **one year later** for noncommercial aircraft and longer production period property. **Planning Alert!** The OBBBA **permanently extends** the Bonus Depreciation deduction and increases the **depreciation deduction to 100% for property acquired after January 19, 2025.** **Note!** Property subject to a **binding written contract** entered into **before January 20, 2025, is not considered acquired** after January 19, 2025, and **is not eligible** for the 100% rate. Bonus depreciation property acquired **before January 20, 2025,** will be subject to the **prior bonus depreciation rates (e.g., 60% for 2024 and 40% for 2025).** In addition, for qualified property placed-in-service in a taxpayer's **first tax year ending after January 19, 2025,** a taxpayer may **elect to use the bonus depreciation rates in effect on January 19, 2025.** Thus, in a taxpayer's first tax year ending after January 19, 2025, a taxpayer may **elect a 40% bonus depreciation rate** for qualified property and specified plants and a **60% bonus rate** for non-commercial aircraft and longer production period property placed-in-service during that tax year. In addition, taxpayers retain the option to **elect out** of bonus depreciation (on a class-of-property basis) if they prefer slower depreciation.
- **New Bonus Depreciation For Qualified Production Property.** The OBBBA allows taxpayers to elect to use the 100% bonus depreciation allowance for **qualified production property.** To qualify,

construction on the property generally must begin **after January 19, 2025, and before January 1, 2029, and the property must be placed-in-service before January 1, 2031**. The election is made for the tax year the bonus depreciation is taken by **identifying the property as qualified production property** on the taxpayer's tax return. **Note!** The OBBBA defines "Qualified Production Property" as **new, MACRS, nonresidential real property that is integral to a production activity which is placed-in-service in the United States, or its territories**. Qualified production property only includes **real property that is related to manufacturing, production, or refining of a qualified product**. For example, any non-residential real property used for **offices, administrative services, sales, research, software development, engineering activities, lodging, or parking is not qualified production property**. Qualified production activities include **manufacturing, production, or refining, which results in a substantial transformation of a qualified product**. "Production" is limited to **agricultural and chemical production**. "Qualified products" include **all tangible personal property, except food or beverages prepared in the same building as the retail establishment where the products are sold**. The property must generally be **new property**. However, taxpayers may elect the **special depreciation allowance for certain used production property** acquired by the taxpayer **after January 19, 2025, and before January 1, 2029**. Such used property can qualify **only if not previously used by the taxpayer and not used by any person at any time from January 1, 2021, through May 12, 2025, in a qualified production activity**.

- **Used Property Qualifies For 168(k) Bonus Depreciation.** For qualifying property acquired and placed-in-service **after September 27, 2017**, the 168(k) Bonus Depreciation may be taken on **new or used property**. Therefore, property that generally qualifies for the 168(k) Bonus Depreciation includes **new or used business property** that has a depreciable life for tax purposes of **20 years or less** (e.g., machinery and equipment, furniture and fixtures, sidewalks, roads, landscaping, computers, computer software, farm buildings, and qualified motor fuels facilities).
- **Annual Depreciation Caps For Passenger Vehicles.** Vehicles used primarily in business generally qualify for the 168(k) Bonus Depreciation. However, there is a dollar cap imposed on business cars, and on trucks, vans, and SUVs that have a **loaded vehicle weight (GVWR) of 6,000 lbs. or less**. For qualifying vehicles with a GVWR of 6,000 lbs. or less **placed-in-service in 2025 and used 100% for business**, the annual depreciation caps are as follows: **1st year - \$12,200; 2nd year - \$19,600; 3rd year - \$11,800; 4th and subsequent years - \$7,060**. Moreover, if the vehicle (new or used) otherwise qualifies for the 168(k) Bonus Depreciation, the first-year depreciation cap (assuming 100% business use) is **increased by \$8,000 (i.e., from \$12,200 to \$20,200 for 2025)**. **Planning Alert!** If a new or used truck, van, or SUV (which is used 100% for business) has a **GVWR over 6,000 lbs., 100% of its cost** (without a dollar cap) could be deducted **for 2025 if acquired after January 19, 2025, as a 168(k) Bonus Depreciation deduction**. **Note!** Since 100% of the cost of the vehicle is deductible as bonus depreciation, there is no need to elect a 179 Deduction for the vehicle.
- **168(k) Bonus Depreciation Available In Tax Year Qualifying Property Placed-In-Service.** The 168(k) Bonus Depreciation deduction is taken in the tax year the qualifying property is placed-in-service. Consequently, if your business anticipates acquiring qualifying 168(k) property between now and the end of the year, the 168(k) Bonus Depreciation deduction is **taken in 2025 if the property is placed-in-service no later than December 31, 2025**, if the business has a calendar tax year. Alternatively, the 168(k) Bonus Depreciation deduction can be **deferred until 2026** if the qualifying property is **placed-in-service in 2026**. Generally, if you are purchasing "personal property" (equipment, computer, vehicles, etc.), "**placed-in-service**" means the property is **ready and available for use** (this commonly means the date on which the property has been **set up and tested**). If you are dealing with building improvements (e.g., "Qualified Improvement Property"), the date on the **Certificate of Occupancy** is commonly considered the date the qualifying building improvements are placed-in-service. **Planning Alert!** Unlike the 179 Deduction (discussed next), the 168(k) Bonus Depreciation deduction is automatically allowed unless the **business timely elects out** of the deduction. However, the **179 Deduction is not allowed unless the business makes an election to take it**.

Section 179 Deduction. The 179 Deduction is another popular and frequently used tool to accelerate deductions. Effective for property placed-in-service in tax years beginning after 2017, the TCJA increased the 179 Deduction limitation to \$1,000,000 and increased the phase-out threshold to \$2,500,000. The 179 limitations for SUVs, trucks, vans, etc. was \$25,000. These caps have been indexed for inflation since 2019. **Note!** The deduction limitation was scheduled to be \$1,250,000 and the phase-out threshold was scheduled to be \$3,130,000 for 2025. The cap for SUVs, trucks, vans, etc., is \$31,300 for 2025. **Tax Tip!** Businesses must elect to take the 179 Deduction for a particular asset. However, the 168(k) Bonus Depreciation deduction is automatic for qualifying assets unless the business elects not to take the deduction. Any election out of the bonus depreciation deduction applies for every asset in that asset class.

Planning Alert! The OBBBA increases the 179 Deduction limitation to \$2,500,000 and increases the phase-out threshold to \$4,000,000 for tax years beginning after 2024. These increases will be indexed for inflation after 2025. **Note!** The cap for SUV, trucks, vans, etc., was not changed by the OBBBA but will continue to be indexed for inflation. Thus, the cap for SUVs, etc., remains at \$31,300 for 2025. **Observation!** It is important to identify all the depreciable property acquired during the year that qualifies as 179 Property. The following is a list of business properties that qualify for the 179 Deduction.

- **General Definition Of 179 Property.** Generally, depreciable property qualifies for the 179 Deduction if: 1) It is purchased new or used, 2) It is tangible personal property, and 3) It is used primarily for business purposes (e.g., machinery and equipment, furniture and fixtures, business computers, vehicles weighing more than 6,000 lbs., etc.). Off-the-shelf business software also qualifies. **Planning Alert!** The 179 Deduction is now allowed for otherwise qualifying property used in connection with lodging (e.g., 179 property in a home the owner is renting to others should qualify).
- **179 Property Includes Qualified Real Property.** For property placed-in-service in tax years beginning after 2017, "Qualified Real Property" (which qualifies for the 179 Deduction) means any of the following improvements to an existing commercial (i.e., nonresidential) building that are placed-in-service after the commercial building was first placed-in-service: 1) Qualified Improvement Property, 2) Roofs, 3) Heating, Ventilation, and Air-Conditioning Property, 4) Fire Protection and Alarm Systems, and 5) Security Systems. **Tax Tip!** Determining whether a major repair to a building's roof should be capitalized or deducted immediately as a repair under IRS regulations, is not always an easy task. Since new roofs with respect to an existing commercial building may qualify for the 179 Deduction, in many situations, the capitalization vs. repair issue relating to the replacement of roofs should largely be eliminated where the 179 limitation caps for the year are not exceeded. **Planning Alert!** Qualified Improvement Property (QIP) also qualifies for the 40%/100% 168(k) first-year bonus depreciation deduction as well as for the 179 Deduction, subject to the dollar limitation listed previously. "Qualified Improvement Property" generally means improvements to the interior portion of a commercial building which are placed-in-service after the building is placed-in-service, and which do not expand the floor space of the building and do not involve the internal structural framework of the building.
- **Business Vehicles.** New or used business vehicles generally qualify for the 179 Deduction, provided the vehicle is used more than 50% in your business. **Planning Alert!** As discussed previously in the 168(k) Bonus Depreciation segment, there is a dollar cap imposed on business cars and trucks that have a vehicle weight of 6,000 lbs. or less. If applicable, this dollar cap applies to both the 168(k) Bonus Depreciation and the 179 Deduction taken with respect to the vehicle.
- **Heavy Vehicles Exempt From Dollar Caps.** Trucks, vans, and SUVs that have a loaded weight (GVWR) of more than 6,000 lbs. are exempt from these annual depreciation caps. In addition, these vehicles, if used more-than-50% in business, will also generally qualify for a 179 Deduction of up to \$31,300 if placed-in-service in 2025. **Tax Tip!** Pickup trucks with loaded vehicle weights over 6,000 lbs. are exempt from the \$31,300 limit to the 179 Deduction if the truck bed is at least six feet long. **Planning Alert!** The \$31,300 cap applies only for purposes of the 179 Deduction. This \$31,300 cap does not apply with respect to the 168(k) Bonus Depreciation deduction taken on vehicles weighing over 6,000 lbs. **Tax Tip!** Neither the 179 Deduction nor the 168(k) Bonus Depreciation deduction requires any proration based on the length of time that

an asset is in service during the tax year. Therefore, your calendar-year business would get the benefit of the **entire 179 or 168(k) Deduction for 2025 purchases**, even if the qualifying property was placed-in-service as late as **December 31, 2025!** However, you would claim the 168(k) and 179 deductions in 2026 if the qualifying property was placed-in-service on January 1, 2026, or after. Therefore, if you want the **deduction for 2025**, make sure the vehicle or other qualifying property is **placed-in-service in 2025**.

- **The Section 179 Taxable Income Limitation.** The 179 Deduction is **limited to a taxpayer's trade or business taxable income** (determined without the 179 Deduction) for the tax year. Any **excess 179 Deduction** over the taxable income limitation is **carried forward to later years** until the taxpayer generates enough business taxable income to fully deduct it. This generally means that this taxable income limitation will not limit the taxpayer's Section 179 Deduction for a specific tax year so long as the taxpayer has aggregated net income (before the section 179 Deduction) from all trades or businesses at least equal to the 179 Deduction for that tax year. For this purpose, an individual's **trade or business income includes W-2 wages** reported by the individual and/or the individual's spouse (if filing a joint return). **Planning Alert!** There is **no taxable income limitation or \$31,300 cap** with respect to the 168(k) Bonus Depreciation deduction. Therefore, for example, a taxpayer could deduct **100% of the full cost** of an SUV weighing over **6,000 lbs. purchased after January 19, 2025**, and **used entirely for business** as a 168(k) Bonus Depreciation deduction without being limited by the \$31,300 cap, and regardless of the amount of the taxpayer's taxable income.

Salaries For S Corporation Shareholder/Employees. For 2025, an employer generally must pay FICA taxes of 7.65% on an employee's wages **up to \$176,100** (\$184,500 for 2026) and 1.45% on wages in **excess of \$176,100** (\$184,500 for 2026). In addition, an employer **must withhold FICA taxes** from an employee's wages of 7.65% on wages **up to \$176,100** (\$184,500 for 2026) and 1.45% of wages in **excess of \$176,100** (\$184,500 for 2026). Generally, the employer must also withhold an additional Medicare tax of **0.9% for wages paid to an employee in excess of \$200,000**. If you are a shareholder/employee of an S corporation, this FICA tax generally applies only to your W-2 income from your S corporation. Other income that passes through to you or is distributed with respect to your stock is generally not subject to FICA taxes or to self-employment taxes.

- **Compensation Must Be Reasonable.** If the IRS determines that you have taken unreasonably low compensation from your S corporation, it will generally argue that other amounts you have received from your S corporation (e.g., distributions) are disguised compensation and should be subject to FICA taxes. Determining "reasonable compensation" for S corporation shareholder/employees continues to be a hot audit issue. Over the years, the IRS has been particularly successful in reclassifying distributions as wages where S corporation owners pay themselves **no wages** even though they **provided significant services** to the corporation. However, there have been several cases where the S corporation owners paid themselves **more than de minimis wages**, but the Court still held that an additional portion of their cash distributions should be reclassified as wages (subject to payroll taxes). **Caution!** Determining reasonable compensation for an S corporation shareholder is a case-by-case determination, and there are no rules of thumb for determining whether the compensation is reasonable. However, Court decisions make it clear that the compensation of S corporation shareholders should be **supported by independent data** (e.g., comparable industry compensation studies) and should be properly documented and approved by the corporation. **Planning Alert!** Keeping wages low and minimizing your FICA tax could also reduce your Social Security benefits when you retire. Furthermore, if your S corporation has a qualified retirement plan, reducing your wages may reduce contributions that can be made to the plan on your behalf since contributions to the plan are based on your wages.

S Corporation Shareholders Should Check Stock And Debt Basis Before Year-End. If you own S corporation stock and you think your S corporation will have a tax loss this year, you should **contact us as soon as possible**. These losses will not be deductible on your personal return **unless and until you have adequate basis** in your S corporation. Any pass-through loss that exceeds your basis in the S corporation will carry over to succeeding years. You have basis to the extent of the amounts paid for your stock (adjusted for net pass-through income, losses, and distributions); **plus**, any amounts you have personally

loaned to your S corporation. **Planning Alert!** If an S corporation anticipates financing losses through borrowing from an outside lender, the best way to ensure the shareholder gets **debt basis** is to: **1)** Have the **shareholder personally borrow** the funds from the outside lender, and **2)** Then have the **shareholder formally (with proper and timely documentation) loan** the borrowed funds to the S corporation. It may also be possible to restructure (with timely and proper documentation) an existing outside loan directly to an S corporation in a way that will give the shareholder debt basis. However, the loan must be restructured before the S corporation's year ends. **Caution!** A shareholder cannot get debt basis by merely guaranteeing a third-party loan to the S corporation. Please do not attempt to restructure your loans **without contacting us first**.

MAXIMIZE YOUR 20% DEDUCTION FOR QUALIFIED BUSINESS INCOME (QBI)

Since the highest C corporation rate was reduced from 35% to 21%, the **TCJA** introduced a new **20% Deduction** that is generally provided to individuals, trusts and estates who receive qualified business income from S Corporations, Partnerships, or Sole Proprietorships. The 20% Deduction also applies to qualified REIT dividends and income from qualified publicly traded partnerships. The Qualified Business Income or QBI deduction, was set to **expire for tax years beginning after 2025 but has been extended as discussed below**. For 2025, the QBI deduction for individuals with taxable income of **\$197,300 or less (\$394,600 or less for joint returns)** is generally 20% of the **lesser of 1) QBI or 2) taxable income**. However, once an individual taxpayer's taxable income exceeds **\$247,300 (\$494,600 for joint returns)**, the deduction is limited to the **lesser of 1) 20% of QBI, 2) the W-2 Wage and Qualified Property Limitation, or 3) 20% of taxable income**. In addition, once taxable income exceeds these threshold amounts, the income of a **specified service trade or business (SSTB)** (e.g., income of accountants, attorneys, physicians) **does not qualify** for the QBI deduction. As taxable income increases from **\$197,300 to \$247,300 (\$394,600 to \$494,600 for joint returns)** the W-2 wage and qualified property limitation phases in and the deduction for SSTB income phases out. Therefore, the range of taxable income over which the W-2 wage and qualified property limitation phases in and the QBI deduction for SSTBs phases out is **\$50,000 (\$100,000 for joint returns)**. **Planning Alert!** A taxpayer with taxable income for 2025 of **\$197,300 or less (\$394,600 or less if married filing jointly)** qualifies for two major benefits: **1)** The taxpayer's SSTB income (if any) is fully eligible for the 20% Deduction, and **2)** The taxpayer is completely exempt from the W-2 Wage and qualified property limitation. Consequently, if you are in a situation where your 20% Deduction would otherwise be significantly reduced (or even eliminated altogether) due to either or both limitations, it is even more important that you review year-end strategies that could help you **reduce your 2025 taxable income** (before the 20% Deduction) to or **below the \$197,300/\$394,600 thresholds**.

Planning Alert! The **OBBBA** makes the **20% QBI deduction permanent**. In addition, **beginning in 2026**, the **OBBBA** expands the **phase-in range** for the W-2 wage and qualified property limitation and the **loss of the QBI deduction** for specified service trade or business income. **For 2026**, the W-2 wage and qualified property limitation will phase in and the QBI deduction for SSTB income will phase out over a taxable income range of **\$75,000 rather than \$50,000 (\$150,000 rather than \$100,000 for joint returns)**.

Note! Beginning with the **2026 tax year**, the **OBBBA** provides a **minimum deduction of \$400** for taxpayers who **materially participate** in one or more **active trades or businesses** and have at least **\$1,000 of QBI**. This \$400 deduction and the \$1,000 threshold will be **indexed for inflation**.

Highlights Of The 20% Deduction For Qualified Business Income (QBI). In certain situations, the rules for determining whether a taxpayer qualifies for the 20% Deduction with respect to **Qualified Business Income (QBI)** can be quite complicated. Consequently, the discussion below provides only an overview of the primary requirements for a taxpayer to be eligible for the 20% Deduction as it applies to QBI.

- **Who Qualifies For The 20% Deduction With Respect To Qualified Business Income (QBI)?**
Taxpayers who may qualify for the 20% Deduction are generally taxpayers that report Qualified Business Income (QBI) as: Individual owners of S corporations or partnerships; Sole Proprietors; Trusts and Estates; and Certain beneficiaries of trusts and estates.

Planning Alert! The 20% Deduction is generally taken on the owner's individual income tax return. The 20% Deduction does not reduce the individual owner's Adjusted Gross Income (AGI) or impact the calculation of the owner's Self-Employment Tax. Instead, the deduction simply **reduces the owner's taxable income** (regardless of whether the owner itemizes deductions or claims the standard deduction). In other words, the 20% Deduction is allowed **in addition to an individual's itemized deductions or standard deduction**.

- **Rules For 20% Deduction For QBI Are Much Simpler For Taxpayers With 2025 Taxable Income Of \$197,300 Or Below (\$394,600 Or Below If Filing Joint Return).** Computing the 20% Deduction for QBI for some taxpayers can be extremely tricky. However, as you read the following discussion, you will discover that certain rules that could otherwise limit the amount of the 20% QBI deduction do not apply to taxpayers with taxable income (before the 20% Deduction) of **\$197,300 or below (\$394,600 or below if married filing jointly)**.
- **Qualified Business Income.** Qualified Business Income (QBI) generally eligible for the 20% Deduction, is defined as the **net amount of qualified items of income, gain, deduction, and loss** with respect to **any trade or business other than:** 1) Certain **personal service** businesses known as **Specified Service Trades Or Businesses** (described in more detail below), and 2) The **Trade or Business** of performing services as an **employee** (e.g. W-2 wages). **Caution!** QBI also generally **does not include** certain items of income, such as: 1) Dividends, investment interest income, short-term capital gains, long-term capital gains, income from annuities, commodities gains, foreign currency gains, etc.; 2) Any **guaranteed payment** paid to a partner by the partnership; 3) Reasonable compensation paid by an S corporation to a shareholder; or 4) Income you report as an independent contractor (e.g., sole proprietor) where it is ultimately determined that you should have been classified as a common law employee.
- **Depreciation Recapture Income May Be Treated As QBI.** As mentioned previously, a capital gain or loss (long-term or short-term) is excluded from the determination of QBI. However, on the sale of depreciable personal business property, the gain is generally treated as ordinary gain (not capital gain) to the extent the seller previously took either depreciation or the 179 Deduction with respect to that property. This is commonly referred to as "Depreciation Recapture Gain." **Depreciation Recapture Gain** (i.e., treated as ordinary gain) with respect to a qualifying business is **included in the calculation of QBI**.
- **Gain On The Sale Of A Partnership Interest Could Generate QBI.** Generally, the gain on the sale of a partnership interest is classified as a capital gain which is excluded from the computation of QBI. However, code section 751 of the Internal Revenue Code requires a partner to treat income from the sale of the partner's partnership interest as **ordinary gain** (not capital gain) to the extent of the partner's share of the partnership's **Unrealized Receivables** (e.g., zero-basis receivables held by a cash-basis partnership; Depreciation Recapture Gain reflected in the partnership's depreciable property) and **Substantially Appreciated Inventory**. If a partnership is generating QBI at the date of the sale of the partnership interest, the ordinary gain triggered to the selling partner under code section 751 should also be included in the partner's QBI. **Note!** Unlike partnerships, no portion of the gain or loss on the sale of S corporation stock will be included in the determination of QBI.
- **W-2 Wage And Qualified Property Limitation On The 20% QBI Deduction.** Generally, the 20% QBI deduction with respect to each Qualified Trade or Business may not exceed **the greater of:** 1) 50% of the allocable share of the business's W-2 wages allocated to the QBI of each Qualified Trade or Business, or 2) The sum of 25% of the business's allocable share of W-2 wages with respect to each Qualified Trade or Business, plus 2.5% of the business's allocable share of unadjusted basis of tangible depreciable property held by the business at the close of the taxable year. **Note!** This limitation, to the extent it applies, is generally designed to ensure that the full 20% of QBI Deduction is available only to qualified businesses that have sufficient W-2 wages, sufficient tangible depreciable business property, or both.

- **What Is A Specified Service Trade Or Business (SSTB)?** A Specified Service Trade or Business (SSTB) is generally defined as: **1)** a trade or business activity involved in the performance of services in the field of: health; law; accounting; actuarial science; performing arts; consulting; athletics; financial services; or brokerage services; **2)** a trade or business involving the receipt of fees for celebrity-type endorsements, appearance fees, and fees for using a person's image, likeness, name, etc.; and **3)** any trade or business involving the services of investing and investment management, trading, or dealing in securities, partnership interests, or commodities. An SSTB **does not include** the performance of architectural or engineering services.
- **Evaluating Reasonable W-2 Compensation Paid To S Corp Shareholder/Employees Is Even More Important Now.** S corporation shareholder/employees have had an incentive to pay W-2 wages as low as possible because only the shareholder's W-2 income from the S corporation is subject to FICA taxes. Other income of the shareholder from the S corporation is generally not subject to FICA or Self-Employment (S/E) taxes. Traditionally, where the IRS has determined that an S corporation shareholder/employee has taken **unreasonably low compensation** from the S corporation, the IRS has argued that other amounts the shareholder has received from the S corporation (e.g., **distributions**) are **disguised compensation** and should be subject to FICA taxes. In light of the 20% Deduction, reviewing the amount of W-2 wages for shareholder/employees of S Corporations becomes even more important as we illustrate below:
 - For S Corporation shareholder/employees who expect 2025 taxable income (before the 20% Deduction) of **\$197,300 or less (\$394,600 or less if married filing jointly)**, there is a **tax benefit** to keeping the shareholders' W-2 wages at a level that the shareholder/employee's taxable income does not exceed \$197,300 (\$394,600 if married filing jointly), because: **1)** The W-2 wages paid to shareholders **do not qualify** for the 20% Deduction, but the W-2 Wages **do reduce** a shareholder's pass-through Qualified Business Income, **2)** The shareholder will be exempt from the W-2 Wage and Qualified Property Limitation, and **3)** The shareholder's pass-through SSTB income (if any) will be eligible for the 20% Deduction. **Caution!** As mentioned previously, the IRS has a long history of attacking S Corporations it believes are paying shareholder/employees **unreasonably low W-2 wages**. By contrast, for S Corporation shareholder/employees who expect to have taxable income (before the 20% Deduction) of **\$247,300 or more (\$494,600 or more if married filing jointly)**, there may be a **tax benefit from increasing** the shareholder's W-2 wages if: **1)** The S corporation is generating pass-through Qualified Business Income (QBI), and **2)** The W-2 Wage and Qualified Property Limitation will significantly limit the amount of the shareholder/employee's 20% Deduction unless the S corporation increases the W-2 wages paid to the shareholder/employee. However, increasing the shareholder/employee's W-2 wages will increase the payroll tax liability of the S corporation and the shareholder. Therefore, careful calculations should be made before adopting this strategy.

Planning Alert! If you want our firm to review how the W-2 wages your S corporation is currently paying its shareholders affect the 20% Deduction, **please contact us as soon as possible**. We will evaluate your specific situation and make recommendations. **Caution!** The quicker you contact us, the better chance you have of acting before the end of 2025 to increase your 20% Deduction.
- **Payments By A Partnership To A Partner For Services.** A partner's pass-through share of QBI **generally is eligible** for the 20% Deduction. Moreover, payments by the partnership to the partner that are properly **classified as distributions** neither reduce nor increase the partnership's QBI that passes through to its partners. However, the following types of payments to a partner by a partnership **do reduce the amount of QBI** otherwise generated by a partnership, and are also **not eligible** for the 20% Deduction: **1)** Any amount that is a **guaranteed payment** paid by the partnership to the partner, or **2)** Any amount allocated or distributed by a partnership **to a partner for services provided** to the partnership where it is ultimately determined that the partner was **acting other than in his or her capacity as a partner**. **Caution!** It is not always clear whether specific payments to a partner will be classified as distributions (that generally do not reduce the 20% Deduction) or alternatively fall into one of the two above-listed categories that are not eligible for the 20% Deduction. Often partnerships call

distributions to partners **guaranteed payments** when they are not technically guaranteed payments. Generally, guaranteed payments are payments made to partners **without regard to the partnership's income**. If payments to partners are merely distributions of profits or advance distributions of profits, they are probably not guaranteed payments and should not be classified as such and should not reduce the QBI of the partnership.

- **250-Hour Safe Harbor For Rental Real Estate.** For any business activity to generate Qualified Business Income (QBI), the activity must constitute a **trade or business**. For Federal income tax purposes, there has always been uncertainty whether and when a **real estate rental activity** is considered a trade or business. In response to that uncertainty, the IRS released guidance that presumes a rental real estate activity is a trade or business for **purposes of the 20% Deduction**. This presumption generally applies if the owner, employees, and independent contractors, in the aggregate, **provide 250 or more hours** of qualifying services with respect to the rental property during the tax year. **Planning Alert!** Failing to satisfy this 250-hour safe harbor only means the rental real estate activity **will not be presumed to be a trade or business** for purposes of the 20% Deduction. For those who fail to satisfy this safe harbor, depending on the facts, it may still be possible for the owner to successfully **argue that the rental real estate activity constitutes a trade or business** under general common law principles or when the property is rented to a business **controlled by the owner** and in which the **owner materially participates**. **Note!** This 250-hour safe harbor **contains several rules and requirements** that are too lengthy to address in this letter. If you own rental real estate that is generating net rental income, feel free to **contact our firm** and we will gladly review your specific situation and determine if your **rental real estate activity is a trade or business** qualifying for the 20% Deduction using the 250-hour safe harbor or one of the other trade or business tests.

CAREFUL WITH EMPLOYEE BUSINESS EXPENSES

Un-Reimbursed Employee Business Expenses. For 2018 and through 2025, un-reimbursed employee business expenses are **not deductible as a miscellaneous itemized deduction**. For example, employees may not deduct any of the following business expenses incurred as an employee, even if the expenses are necessary for the employee's work: **Automobile expenses** (including auto mileage, vehicle depreciation); **Costs of travel, Transportation, Lodging and meals; Union dues and expenses; Work clothes and uniforms; Otherwise qualifying home office expenses; Dues to a chamber of commerce; Professional dues; Work-Related education expenses; Job search expenses; Licenses and regulatory fees; Malpractice insurance premiums; Subscriptions to professional journals and trade magazines; and Tools and supplies used in the employee's work.**

Update! The **OBBBA** makes the suspension of the deduction for miscellaneous itemized deductions **permanent**. Therefore, the deduction for un-reimbursed employee business expenses will not be reinstated in 2026. However, beginning with **the 2026 tax year**, the **OBBBA** allows an itemized deduction for **certain qualified educator expenses**. The **OBBBA** provides that qualified educator expenses **in excess of the above-the-line deduction limitation (e.g., \$300 for 2025)** are deductible as an itemized deduction **after 2025 if the educator itemizes deductions**. Eligible educators are **kindergarten through grade 12, teachers, instructors, counselors, coaches, principals, or aides** who work in a school for at least 900 hours during a school year. Eligible educator expenses include **books, supplies, computer equipment, and supplementary materials** used by eligible educators. **Note!** In general, employee business expenses that are reimbursed under an employer's qualified **Accountable Reimbursement Arrangement** are **deductible** by the employer (subject to the limit on business meals), and the reimbursements are **not taxable** to the employee. However, reimbursements under an arrangement that is **not** a qualified accountable reimbursement arrangement generally must be treated as compensation and included in the employee's W-2. In addition, the employer would get no offsetting deduction for the business expense. **Planning Alert!** Generally, for an employer to have a qualified Accountable Reimbursement Arrangement: **1) The employer must maintain a reimbursement arrangement that requires the employee to substantiate covered expenses; 2) The reimbursement arrangement must require the return of amounts paid to the employee in excess of the amounts substantiated; and 3) There must be a business connection between the reimbursement (or advance) and the business expenses.**

Deductions For Business Meals. The TCJA generally repealed business deductions with respect to entertainment, amusement, or recreation activities after 2017. Fortunately, the IRS says that businesses can **generally deduct 50% of the cost of meals** (i.e., food and beverages) with a business associate (e.g., a current or potential business customer, client, supplier, employee, agent, partner, professional advisor). The IRS also says that businesses can deduct 50% of the cost of food and beverages **provided during a nondeductible entertainment activity** with a business associate provided the food and beverages are **purchased separately** from the entertainment, or the cost of the food and beverages is **stated separately** from the cost of the entertainment on one or more bills, invoices, or receipts. **Planning Alert!** If an employer reimburses an employee's deductible business food and beverage expense under an Accountable Reimbursement Arrangement, the employer could deduct 50% of the reimbursement. This same rule applies if you are employed by your own S corporation. However, as discussed previously, an employee who is not reimbursed by the employer for the business meal would get no deduction because unreimbursed employee business expenses are not deductible.

OTHER SELECTED YEAR-END PLANNING CONSIDERATIONS FOR BUSINESSES

Work Opportunity Tax Credit. The Work Opportunity Tax Credit is available to employers for **wages paid** during the tax year to employees who are **part of targeted groups** that are **hard to employ** and who begin work for the employer **before January 1, 2026**. In general, the credit amount is **40% of qualified wages up to a maximum of \$6,000** paid to each targeted employee during the first year of their employment. The amount of the credit may be modified in several situations. **Planning Alert!** The OBBBA **did not extend** the Work Opportunity Tax Credit! Therefore, the **credit will expire** at the end of the **2025 tax year** unless extended by future legislation.

Partnerships And S Corporations In Applicable States Should Consider Election To Allow Business To Pay State And Local Income Taxes. For 2018 through 2025, the TCJA **limited the aggregate itemized deduction** for state and local real property taxes, state and local personal property taxes, and state and local income taxes (or sales taxes if elected) to **\$10,000 (\$5,000 for married individuals filing separately)**. **Note!** The OBBBA **increases the SALT limitation** from **\$10,000 to \$40,000 for 2025 and \$40,400 for 2026!** The limitation is half of these amounts for married individuals filing separate returns. The deduction limitation is **reduced by 30%** of the excess of the taxpayer's modified adjusted gross income (MAGI) over **\$500,000 (\$250,000 for married individuals filing separate returns) for 2025; \$505,000 (\$252,500) for 2026**. The deduction for any year will not be reduced below **\$10,000 (\$5,000)** and the SALT deduction limitation will revert to **\$10,000 (\$5,000) after 2029**.

Planning Alert! Most states have enacted legislation allowing partnerships and S corporations to elect to pay state and local income taxes on the partnership's or S Corporation's income. If this election is made, the state and local taxes paid by the partnership or S Corporation are deductible by the entity and reduce the income flowing through to the partners or shareholders. This treatment may be beneficial to owners who have state and local taxes **above the new limitation** discussed above. If the entity pays the state and local income taxes on its income, the **owner does not pay tax** on the same income. States either give the partners or S corporation shareholders a **state credit** on their personal returns for the state and local tax paid by the entity or a **deduction** for the income reported by the entity. **Please contact us** if you would like to know more about your state's law allowing state and local taxes to be paid by the partnership or S corporation. **Note!** Some states allow the tax to be paid by other passthrough entities in addition to partnerships and S corporations.

Consider Simplified Accounting Methods For Certain Small Businesses. The TCJA provides the following accounting method relief provisions for businesses with **Average Gross Receipts (AGRs) for the Preceding Three Tax Years of \$31 Million or Less (for 2025)**: **1)** Generally allows businesses to use the cash method of accounting even if the business has inventories; **2)** Allows simplified methods for accounting for inventories; **3)** Exempts businesses from applying UNICAP; and **4)** Expands the availability of the completed-contract method. **Planning Alert!** The IRS has released detailed regulations and procedures to follow for taxpayers who qualify and wish to change their accounting methods in light of these relief provisions. **Please contact our firm** if you want us to help determine whether any of these simplified accounting methods might be available to your business.

Don't Forget De Minimis Safe Harbor Election To Expense Certain Assets. Making the de minimis safe harbor election on your company's 2025 return will allow it to expense certain costs paid for assets, materials and supplies purchased through your company. The safe harbor **threshold is \$5,000** if your company has a certified, audited financial statement and **\$2,500 if it doesn't. Note!** The \$5,000/\$2,500 thresholds are **applied to each invoice.**

Timing The Payment Of Year-End Bonuses May Reduce Taxes. Employers may benefit from timing the payment of year-end bonuses. Employers using the cash method of accounting for income tax purposes can deduct bonuses when paid. This allows the employer to take the deduction in the **year it produces the most tax benefit** by paying the bonus in the current year or delaying payment until next year. Employers using the accrual method of accounting for income tax purposes may generally deduct bonuses in the **year accrued**, assuming the bonuses can be determined by the end of the tax year and are **paid within 2½ months** after the end of the tax year. Accrual method employers can also push the deduction for bonuses into the following tax year by not paying the bonuses within the 2½ month time frame or by changing the bonus calculation so that the bonuses are unable to be determined by year-end. **Caution!** Accrual method **C corporations** may not deduct accruals to **more than 50% shareholders** until the day the amounts are **includable** in the shareholder's income. Accrual method **S corporations and personal service corporations** may not deduct amounts **owed to any shareholder** until the day the amounts are **includable** in the shareholder's income. And accrual method **partnerships, LLCs, and LLPs taxed as partnerships** may not deduct amounts accrued to **any owner** until the day the amounts are **includable** in the owner's income.

No Deduction For Expenses Of A Hobby. Previously, otherwise deductible trade or business expenses attributable to an activity that was **not engaged in for profit (i.e., a hobby loss activity)** were deductible: 1) only as miscellaneous itemized deductions, and 2) only to the extent of the activity's gross income. Since these hobby loss expenses are classified as **miscellaneous itemized deductions**, the deduction is no longer allowed. **Planning Alert!** This makes it even more **important for owners** engaged in activities commonly subject to IRS scrutiny, to take steps to **demonstrate** the business is operated with the intent to **make a profit.**

Form 15397 Application For Extension Of Time To Furnish Recipient Statements. Beginning in 2024, **Form 15397, Application for Extension of Time to Furnish Recipient Statements**, may be used to request a **30-day extension to provide recipients** with Forms W-2, W-2G, 1042-S, 1095, 1097, 1098, 1099, 1099-NEC, 1099-QA, 3921, 3922, 5498, 5498-ESA, 5498-QA, and 5498-SA. Form 15397 should be used to request a **one-time extension** and is **due after January 1** and by the **original due date** of the recipients copy of the form(s). The IRS says Form 15397 **cannot be mailed and should be faxed. Caution!** Form 15397 **does not extend** the due date that the information returns are to be **filed with the IRS and/or the Social Security Administration. Note!** If you need additional time to file information returns with the IRS or Social Security Administration, see the requirements for filing **Form 8809 Application for Extension of Time To File Information Returns.**

Standard Mileage Rates Effective For 2025. The standard mileage deduction rate for your deductible **business miles** was increased to **70.0 cents** per mile effective January 1, 2025. The **charitable mileage rate** is still **14.0 cents** per mile since it's not indexed and the rate for **medical and moving mileage** is **21.0 cents** per mile for 2025. **Planning Alert!** Be sure to keep proper records of your mileage for use as a possible tax deduction.

2026 PLANNING WITH SELECTED ENERGY PROVISIONS

Energy Efficient Commercial Building Deduction. Currently, taxpayers may claim a deduction for the **cost of certain energy-efficient improvements** made to **domestic commercial buildings**. The credit generally applies to improvements to the building's interior lighting systems; heating, cooling, ventilation, and hot water systems; or the building envelope. The **OBBBA terminates** this deduction where construction of the property begins **after June 30, 2026.**

Energy Efficient Home Credit. Contractors who **construct or substantially reconstruct and rehabilitate qualified** energy efficient homes in the U.S. have been **eligible** for various energy tax credit amounts depending on the energy efficiency of the home. The credit under §45L was originally available for qualified energy efficient **homes acquired** from eligible contractors and manufacturers **after 2022 and before 2033**. The **OBBBA terminates** this credit for homes acquired by buyers **after June 30, 2026**.

Alternative Fuel Vehicle Refueling Property. The **OBBBA terminates** the alternative fuel vehicle refueling property credit for property placed-in-service **after June 30, 2026**. Among other alternative fuel vehicle refueling property, this credit applies to the installation of **electric vehicle charging equipment** (including chargers installed at an individual's principal residence).

Other Business Energy Credits. The **OBBBA** modified many business energy credits not discussed above. Several of these credits are **terminated prior to their original expiration date**. However, none of the credits **will expire before 2028**. The credits modified by the **OBBBA** include: the clean fuel production credit, carbon oxide sequestration credit, clean hydrogen production credit, zero-emission nuclear power production credit, advanced manufacturing production credit, clean energy investment credit, advanced manufacturing investment credit, and qualifying advanced energy project credit.

FINAL COMMENTS

Please contact us if you are interested in a tax topic that we did not discuss. Tax law is constantly changing due to new legislation, cases, regulations, and IRS rulings. Our Firm closely monitors these changes. In addition, **please contact us before implementing any planning idea discussed in this letter, or if you need additional information concerning any item mentioned in this letter**. We will gladly assist you. **Note!** The information contained in this material should not be relied upon without an independent, professional analysis of how any of the items discussed may apply to a specific situation.

Disclaimer: Any tax advice contained in the body of this material was not intended or written to be used, and cannot be used, by the recipient for the purpose of promoting, marketing, or recommending to another party any transaction or matter addressed herein. The preceding information is intended as a general discussion of the subject addressed and is not intended as a formal tax opinion. The recipient should not rely on any information contained herein without performing his or her own research verifying the conclusions reached. The conclusions reached should not be relied upon without an independent, professional analysis of the facts and law applicable to the situation.

Does not accept

The IRS does not accept an amended tax return that only changes a member's Active or passive status. An amended return must include any changes to the filing status, income, deductions, credits, or tax liability. If there are no changes to these items, the IRS will not accept the amended return.

IRS