2025 YEAR-END INCOME TAX PLANNING FOR BUSINESSES

INTRODUCTION

H.R. 1, otherwise known as the *One Big Beautiful Bill Act (OBBBA),* 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 *OBBBA*, 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.

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, construction on the property must begin **after January 19, 2025, and before January 1, 2029,** and the property must be 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.** 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.**

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! **Foreign research and experimental** expenses performed outside the United States must **continue to be capitalized and amortized over 15-years.** Planning Alert! Businesses that capitalized and amortized research and experimental expenses after **2021** and before **2025,** may **elect to deduct** the remaining expenditures **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.** 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 *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. **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.

Residential Construction Contracts Not Required To Use Percentage Of Completion Method For Tax Purposes. The *OBBBA* exempts certain 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.** 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. Please contact us** for additional information.

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. This $600 threshold was delayed many times but was to apply after 2025. 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 only 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.**

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.** **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. 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. 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.**

- **New Bonus Depreciation For Qualified Production Property.** The *OBBBA* also 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.** **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.** 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.**

- **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.**

- **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.** **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.

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.** **Note!** 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. 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** with respect to the 168(k) Bonus Depreciation deduction.

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).

- **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. 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. 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, if you want the **deduction for 2025,** make sure the vehicle or other qualifying property is **placed-in-service by December 31, 2025.**

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 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. **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. **Caution!** A shareholder cannot get debt basis by merely guaranteeing a third-party loan to the S corporation.

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. 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. Note!** 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. **Please contact our office** if you would like more information.

CAREFUL WITH EMPLOYEE BUSINESS EXPENSES

Un-Reimbursed Employee Business Expenses. For 2018 and through 2025, un-reimbursed employee business expenses such as automobile expenses, costs of travel, business meals, union dues, qualifying home office expenses, etc. **are not deductible as a miscellaneous itemized deduction. 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. **Planning Alert!** 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. If you need help setting up a qualified Accountable Reimbursement Arrangement for your business, **please contact our office** as soon as possible. **Tax Tip!** Beginning with **the 2026 tax year,** the *OBBBA* allows an itemized deduction for certain **qualified educator expenses. Please contact our office** for more details.

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. **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.

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 tears 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.**

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.**

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.

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