



# Federal Tax Update



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# Today's Presenter

## **Bill Harden, Ph.D., CPA, ChFC**

Bill is an Associate Professor in the Bryan School of Business and Economics at the University of North Carolina at Greensboro where he teaches tax courses on flow-through entities, individual and corporate tax, tax research, IRS practices, and ethics. Bill has thirty years of experience in taxation. He began his public accounting career in 1990 in the Dallas office of one of the Big Six accounting firms. In addition to his university teaching, Bill consults on tax and financial planning issues and maintains a sole practice in North Carolina, focusing on taxation and financial consulting for small businesses and individuals.

Bill has testified before the House Ways and Means Oversight Sub-Committee on Internet taxation issues. He was the recipient of a Lybrand Certificate of Merit in 2002. Bill has been involved in CPE instruction for over a decade. He received NCACPA outstanding instructor awards in 2009, 2010, 2011, and 2013. In 2015, he received the Surgent Outstanding Discussion Leader Award because of his consistently high evaluations for knowledge and presentation skills. In 2016, Bill was awarded the R. Donald Farmer discussion leader award by the NCACPA.

Bill has authored over 30 publications in tax accounting and financial planning journals, including the *Journal of Financial Service Professionals*, *Strategic Finance*, *National Tax Journal*, *Journal of Business Finance and Accounting*, *Tax Notes*, *Tax Advisor*, and *Journal of the American Society of CLU and ChFC*. Mr. Harden is currently a member of the American Accounting Association, the American Taxation Association, the National Tax Association, and the North Carolina Association of CPAs.



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# The One Big Beautiful Bill Act (OBBBA)

## *Temporary Senior Deduction*

- The OBBBA introduces a temporary deduction for taxpayers age 65 and older, effective for 2025 through 2028
- Qualified individuals can deduct **\$6,000 per eligible senior**
  - This means single seniors can claim \$6,000, and married couples filing jointly can claim up to \$12,000 if both spouses qualify
- To qualify, an individual must be age 65 or older before the close of the taxable year
- This deduction is available *in addition* to the standard deduction, making it particularly beneficial for seniors who do not itemize



# The One Big Beautiful Bill Act (OBBBA)

## *Temporary Senior Deduction*

- The deduction is phased out when MAGI exceeds:
  - \$75,000 for single filers; and
  - \$150,000 for married filing jointly
- The deduction is fully phased out when MAGI exceeds:
  - \$175,000 for single filers; and
  - \$250,000 for married filing jointly
- A valid SSN must be provided for each qualifying individual to claim the deduction
  - Failure to provide such information is treated as a mathematical or clerical error, allowing the IRS to disallow the deduction without a formal audit
- This provision is not permanent and is set to sunset after tax year 2028



# The One Big Beautiful Bill Act (OBBBA)

## *State and Local Taxation (SALT) Cap*

- Prior to the TCJA, taxpayers could deduct a variety of state, local, and foreign taxes that were either paid or accrued, including:
  - State, local, and foreign real property taxes;
  - State and local personal property taxes; and
  - State, local, and foreign income taxes, as well as war profits and excess profits taxes
- Additionally, taxpayers had the option to deduct general state and local sales taxes instead of income taxes
- At the time, there was **no specific dollar limit** on these deductions. They were only subject to the overall itemized deduction rules, with no income-based thresholds or phaseouts that applied specifically to SALT deductions



# The One Big Beautiful Bill Act (OBBBA)

## *State and Local Taxation (SALT) Cap*

- The TCJA introduced an annual cap on the deduction for state and local taxes (SALT), limiting it to:
  - \$10,000 for single filers and those married filing jointly (MFJ); and
  - \$5,000 for married individuals filing separately (MFS)
- The types of taxes subject to this cap included:
  - State and local income taxes;
  - State and local real property taxes; and
  - State and local sales taxes
- Additionally, under the TCJA, foreign real property taxes were *no longer deductible* unless they were incurred in connection with a trade or business



# The One Big Beautiful Bill Act (OBBBA)

## *State and Local Taxation (SALT) Cap*

- Under the TCJA, the \$10,000 SALT deduction cap did not apply to state and local taxes that were:
  - Paid in connection with a trade or business; or
  - Related to the production of income (such as taxes on rental property)
- The SALT cap was *not indexed* for inflation and was scheduled to expire after December 31, 2025
- The IRS and Treasury issued regulations to curtail SALT workaround schemes (e.g., charitable contributions for tax credits), and states responded by creating Passthrough Entity Tax (PTET) regimes:
  - These regimes allowed partnerships and S corporations to pay state taxes at the entity level, effectively bypassing the SALT cap for individual owners
  - The IRS later confirmed this treatment in Notice 2020-75, affirming that PTET payments are deductible at the entity level



# The One Big Beautiful Bill Act (OBBBA)

## *State and Local Taxation (SALT) Cap*

- The OBBBA **temporarily raises** the SALT deduction cap from \$10,000 to \$40,000 for most taxpayers (or \$20,000 for married individuals filing separately) for tax years 2025 through 2029
- This increased cap will be adjusted for inflation, starting at \$40,400 in 2026, with a 1% annual increase through 2029
- In addition, the OBBBA permanently disallows the deduction of personal foreign real property taxes
- Beginning in 2030, the SALT deduction cap will revert to its original TCJA limits:
  - \$10,000 for most filers; and
  - \$5,000 for married taxpayers filing separately



# The One Big Beautiful Bill Act (OBBBA)

## *State and Local Taxation (SALT) Cap*

- In 2025, a phaseout of the increased SALT deduction cap begins for taxpayers with modified adjusted gross income (MAGI) over:
  - \$500,000 for most filers; and
  - \$250,000 for married individuals filing separately (MFS)
  - **Note:** The MAGI threshold continues to rise by 1% annually through 2029
- The deduction is **reduced by 30%** of the amount by which MAGI exceeds the threshold. However, the phaseout **cannot reduce** the deduction below \$10,000 (or \$5,000 for MFS)
- The deduction reaches the \$10,000 floor once MAGI hits \$600,000 (or \$300,000 for MFS)
- This phaseout provision is *temporary*, applying only through 2029, since beginning in 2030, the SALT cap reverts to its original TCJA level



# The One Big Beautiful Bill Act (OBBBA)

## *State and Local Taxation (SALT) Cap*

<b>SALT Deduction Cap Phaseout – All Filers Except MFS</b>			
<b>Tax Year</b>	<b>MAGI Limit</b>	<b>SALT Cap</b>	<b>MAGI at Full Phaseout</b>
2026	\$505,000	\$40,400	\$606,333
2027	\$510,050	\$40,804	\$612,730
2028	\$515,151	\$41,212	\$619,191
2029	\$520,302	\$41,624	\$625,716
2030 and beyond	N/A	\$10,000	N/A



# The One Big Beautiful Bill Act (OBBBA)

## *State and Local Taxation (SALT) Cap*

<b>SALT Deduction Cap Phaseout – Married Filing Separately (MFS)</b>			
<b>Tax Year</b>	<b>MAGI Limit</b>	<b>SALT Cap</b>	<b>MAGI at Full Phaseout</b>
2026	\$252,500	\$20,200	\$303,167
2027	\$255,025	\$20,402	\$306,365
2028	\$257,575	\$20,606	\$309,595
2029	\$260,151	\$20,812	\$312,858
2030 and beyond	N/A	\$5,000	N/A



# The One Big Beautiful Bill Act (OBBBA)

## *State and Local Taxation (SALT) Cap*

- While the temporary increase in the SALT deduction cap under the OBBBA provides a greater potential benefit for taxpayers who itemize, its impact is not uniform, particularly for higher-income individuals. These taxpayers may find that their overall benefit is *limited* due to newly imposed restrictions on the total value of itemized deductions
- Additionally, because SALT deductions are added back when calculating AMT liability, the expanded deduction may increase the likelihood of triggering the AMT, especially for taxpayers in high-tax states
- Importantly, the OBBBA **does not** change the current federal treatment of taxes paid through PTET regimes. As a result, PTET elections remain a viable planning strategy, particularly for high-income individuals who may otherwise see limited benefit from the temporary SALT cap increase due to the phaseout rules or AMT implications



# The One Big Beautiful Bill Act (OBBBA)

## *State and Local Taxation (SALT) Cap*

### ***Example 1:***

- Vanessa is a head of household filer with MAGI of \$590,000 in 2025. She pays the following state and local taxes:
  - State income tax: \$30,000
  - Local property tax: \$20,000
  - **Total SALT paid: \$50,000**
- As discussed, for 2025, the base SALT deduction cap is \$40,000. The phaseout threshold is \$500,000, and Vanessa's MAGI exceeds it by \$90,000 (\$590,000 – \$500,000)
- Vanessa's deduction is reduced by 30% of the excess:  $\$90,000 \times 30\% = \$27,000$  phaseout
- Vanessa has a **\$13,000 allowable SALT deduction**: \$40,000 cap - \$27,000 phaseout



# The One Big Beautiful Bill Act (OBBBA)

## *State and Local Taxation (SALT) Cap*

### ***Example 2:***

- David is a single filer with MAGI of \$650,000 in 2025. He pays the following state and local taxes:
  - State income tax: \$28,000
  - Local property tax: \$12,000
  - **Total SALT paid: \$40,000**
- As discussed, for 2025, the base SALT deduction cap is \$40,000. The phaseout threshold is \$500,000, and David's MAGI exceeds it by \$150,000 (\$650,000 – \$500,000)
- David's deduction is reduced by 30% of the excess:  $\$150,000 \times 30\% = \$45,000$  phaseout
- The phaseout amount exceeds the SALT cap by \$5,000; however, since the deduction cannot be reduced below \$10,000, David is still allowed a **\$10,000 SALT deduction**



# The One Big Beautiful Bill Act (OBBBA)

## *Tip Income Deduction*

- Prior to the OBBBA, all tip income was includable in gross income and subject to:
  - Federal income tax; and
  - Employment taxes (Social Security and Medicare)
- Tip income includes:
  - Cash tips received directly from customers;
  - Electronic tips from credit/debit card payments; and
  - Tips received through tip pooling or tip splitting arrangements
- The value of noncash tips (e.g., tickets, goods) is also includable in gross income
- Mandatory service charges ***are not considered*** tips; they are wages and taxed as such



# The One Big Beautiful Bill Act (OBBBA)

## *Tip Income Deduction*

- To qualify as a “**tip**,” a payment must meet certain conditions, including:
  - The payment is made voluntarily by the customer;
  - The amount is determined solely by the customer;
  - The payment is not subject to negotiation or employer policy; and
  - The recipient is chosen by the customer
- Payments that do not meet these criteria (such as automatic charges) are treated as wages, not tips
- Employees must include tips in gross income when received
- If an employee receives cash tips of \$20 or more in any calendar month, they must report those tips to their employer via written statement(s) by the 10th of the following month
- Employers include reported tip income on the employee’s Form W-2



# The One Big Beautiful Bill Act (OBBBA)

## *Tip Income Deduction*

- The OBBBA introduces a temporary deduction for qualified tip income for tax years 2025 through 2028
- Eligible individuals may deduct up to **\$25,000 of qualified tip income per return** annually
- The deduction applies to:
  - Employees (Form W-2 recipients); and
  - Independent contractors reporting tips via Form 1099-NEC, 1099-K, or Form 4317 (for unreported tip income)
- Itemizing is not required to claim the deduction



# The One Big Beautiful Bill Act (OBBBA)

## *Tip Income Deduction*

- To claim the deduction:
  - The taxpayer must provide a valid Social Security Number on the return; and
  - Tips must be properly reported on IRS forms
- The deduction does not reduce employment taxes (e.g., FICA) or state income taxes, as these still apply to tip income
- Lastly, it is important to highlight that the maximum \$25,000 deduction is **per return, not per individual**. This is true **regardless of filing status**



# The One Big Beautiful Bill Act (OBBBA)

## *Tip Income Deduction*

- The deduction begins to phase out at higher income levels:
  - \$150,000 MAGI for all filers except joint filers; and
  - \$300,000 MAGI for married filing jointly
- The deduction is *reduced* by \$100 for every \$1,000 (or fraction thereof) above the threshold
  - For example, a joint filer with \$320,000 MAGI would reduce the deduction by \$2,000



# The One Big Beautiful Bill Act (OBBBA)

## *Tip Income Deduction*

- To qualify for the deduction, tip income must meet the following:
  - Be cash tips from customers (direct or via card), including tips shared under pooling arrangements;
  - Be earned in an occupation customarily tipped, per the IRS; and
  - Not be earned in a “specified service trade or business,” as defined in §199A(d)(2)
- Additionally, business owners may only claim the deduction if gross income (including tips) *exceeds* deductible expenses



# The One Big Beautiful Bill Act (OBBBA)

## *Tip Income Deduction*

- On September 19, 2025, the Treasury Department and IRS issued proposed regulations (REG-110032-25) identifying the occupations that customarily and regularly received tips before 2025, and therefore may be eligible for the deduction
- The proposed regulations also address the definition of “qualified tips” and other requirements taxpayers must comply with to claim the deduction



# The One Big Beautiful Bill Act (OBBBA)

## *Tip Income Deduction*

- The proposed regulations provide a comprehensive list of 68 occupations commonly receiving tips, referred to as the **List of Occupations that Received Tips**. Each occupation on the list is assigned a unique three-digit identifier known as a Treasury Tipped Occupation Code (TTOC). These TTOCs are organized into eight broad occupational categories, as follows:
  - 100s – Beverage and Food Service
  - 200s – Entertainment and Events
  - 300s – Hospitality and Guest Services
  - 400s – Home Services
  - 500s – Personal Services
  - 600s – Personal Appearance and Wellness
  - 700s – Recreation and Instruction
  - 800s – Transportation and Delivery
- Each TTOC entry includes a short description of the types of services performed by individuals working in an occupation included in that occupation code, as well as illustrative examples of specific occupations that would be included under the occupation code



# The One Big Beautiful Bill Act (OBBBA)

## *Tip Income Deduction*

- Under the proposed regulations, a “**tip**” is defined as any amount voluntarily paid by a customer in excess of the amount agreed to, required, charged, or reasonably expected for the service in an arm’s length transaction
- Per the proposed regulations, aligning with existing IRS guidance for FICA and income tax withholding purposes, **cash tips** include amounts received directly from customers or, for employees, through mandatory or voluntary tip-sharing arrangements (e.g., tip pools). These tips must be paid in a cash-equivalent medium, such as:
  - Physical cash or checks;
  - Credit or debit card payments;
  - Gift cards;
  - Tangible or intangible tokens readily exchangeable for a fixed amount in cash (e.g., casino chips);
  - Payments via electronic settlement systems or mobile apps denominated in cash
- Items *not considered* cash tips include:
  - Non-cash goods or services, such as event tickets, meals, or most digital assets, unless they are readily exchangeable for a fixed cash value



# The One Big Beautiful Bill Act (OBBBA)

## *Tip Income Deduction*

- To qualify for the deduction, tip income must meet the following criteria:
  - Be **cash tips** from customers (direct or via card), including tips shared under pooling arrangements;
  - Be earned in an occupation **customarily tipped**, per the IRS; and
  - **Not be earned in a “specified service trade or business,”** as defined in §199A(d)(2)
    - **Note:** The proposed regulations clarify that this rule applies without regard to whether an owner of the trade or business is able to claim a §199A deduction
    - Further, the proposed regulations also clarify that this rule applies even if the employee receiving tips in the course of working for an SSTB employer is working in an occupation that customarily and regularly received tips on or before December 31, 2024
- To prevent reclassification of income as qualified tips, and to prevent abuse of the deduction, the proposed regulations would also provide that a payment is **not a qualified tip** if the tip recipient has an ownership interest in or is employed by the payor of the tip



# The One Big Beautiful Bill Act (OBBBA)

## *Tip Income Deduction*

- Additionally, business owners may only claim the deduction if gross income (including tips) exceeds deductible expenses
- Tip income deducted under the OBBBA provision is *excluded* from QBI for purposes of the §199A deduction
  - This ensures taxpayers do not receive a double benefit on the same income
- Taxpayers with Schedule C income should model both §199A and tip deduction effects to determine the optimal strategy



# The One Big Beautiful Bill Act (OBBBA)

## *Tip Income Deduction*

- For 2025 only, employers may use any reasonable method to estimate reportable tips
- Starting in 2026, IRS will update withholding procedures to reflect the new deduction
- Reporting entities (employers, platforms, third-party payers) must:
  - Separately report designated cash tips and recipient occupations; and
  - Update reporting on Forms W-2, 1099-NEC, 1099-K, and related filings



# The One Big Beautiful Bill Act (OBBBA)

## *List of Occupations*

- The IRS has published a preliminary list of 68 jobs that customarily and regularly received tips (See: <https://home.treasury.gov/system/files/136/Tipped-Occupations-Detailed-8-27-2025.pdf>) that divides the jobs into 8 categories, as listed below:
  - Beverage and food service
  - Entertainment and events
  - Hospitality and guest services
  - Home services
  - Personal services
  - Personal appearance and wellness
  - Recreation and instruction
  - Transportation and delivery



# The One Big Beautiful Bill Act (OBBBA)

## *Tip Income Deduction*

### ***Example:***

- *Sofia is a nail technician (in a tipped occupation) and files jointly with her spouse*
- *Their MAGI is \$320,000*
- *Sofia earns \$28,000 in qualified tip income, all properly reported on Form 1099-NEC*
- *The deduction is capped at \$25,000 per return under the OBBBA*
- *Since their MAGI exceeds the \$300,000 threshold by \$20,000, the deduction is reduced:*
  - *Phaseout:  $\$20,000/100 = \$2,000$*
- *The tip income deduction is equal to \$23,000 (\$25,000 less \$2,000 phaseout)*



# The One Big Beautiful Bill Act (OBBBA)

## *Overtime Pay Deduction*

- Prior to the OBBBA, all overtime compensation was fully includable in gross income and subject to federal income tax and FICA taxes
- Overtime wages were treated the same as regular wages for tax purposes, and no special deduction or exclusion previously applied
- The OBBBA introduces a **temporary deduction of up to \$25,000** for qualified overtime compensation, effective for tax years 2025 through 2028



# The One Big Beautiful Bill Act (OBBBA)

## *Overtime Pay Deduction*

- **Qualified overtime compensation** is defined as overtime pay received under Section 7 of the Fair Labor Standards Act of 1938, specifically, wages paid at a rate above the employee's regular rate of pay for overtime hours
- The deduction is available to:
  - Employees who receive W-2s; and
  - Independent contractors or self-employed individuals who report overtime compensation on Form 1099
- Tips deducted under the new OBBBA provisions are *excluded* when calculating qualified overtime pay
- To qualify for the overtime pay deduction, the taxpayer must include a valid SSN on the return, and married individuals must file jointly to be eligible
  - Omission of a SSN is treated as a mathematical or clerical error under §6213(g)(2), allowing the IRS to deny the deduction without audit



# The One Big Beautiful Bill Act (OBBBA)

## *Overtime Pay Deduction*

- The maximum overtime pay deduction is:
  - \$25,000 for married filing jointly; and
  - \$12,500 for single filers and other filers
- The deduction phases out by \$100 for every \$1,000 of MAGI above the following thresholds:
  - \$150,000 for single and other filers
  - \$300,000 for MFJ
  - **Note:** These thresholds are **not indexed** for inflation



# The One Big Beautiful Bill Act (OBBBA)

## *Overtime Pay Deduction*

- Non-itemizers are eligible to claim the deduction in addition to the standard deduction
- Qualified overtime compensation remains subject to payroll taxes (Social Security and Medicare) and state income taxes
- A transition rule applies for compensation paid before January 1, 2026, allowing payors to approximate qualifying overtime using any reasonable method prescribed by the Treasury
- Taxpayers working substantial overtime should consider:
  - Tracking and segregating qualified overtime from regular wages;
  - Monitoring MAGI levels to anticipate phaseout impact; and
  - Coordinating with employers or payors to ensure accurate and timely reporting



# The One Big Beautiful Bill Act (OBBBA)

## *Overtime Pay Deduction*

### ***Example:***

- *Max is a single filer with MAGI of \$165,000*
- *He earns \$15,000 in qualified overtime pay under the FLSA and has no tip income*
- *Max's deduction is capped at \$12,500 per year under the OBBBA*
- *Since Max's MAGI exceeds the \$150,000 threshold by \$15,000, his deduction is reduced:*
  - *$\$15,000/100 = \$1,500$  phaseout*
- *Max's allowable deduction is \$11,000 (\$12,500 less \$1,500 phaseout)*



# The One Big Beautiful Bill Act (OBBBA)

## *Trump Accounts*

- The OBBBA introduces “**Trump Accounts**,” a new category of tax-deferred investment accounts designed exclusively for minors under the age of 18
- These accounts are modeled after Roth IRAs, with several additional limitations aimed at protecting the long-term financial interests of children
- The primary purpose of Trump Accounts is to promote early investment and asset building for U.S. citizen children through strictly regulated tax-advantaged vehicles
- Trump Accounts will become available for funding beginning July 4, 2026, twelve months after the OBBBA’s enactment



# The One Big Beautiful Bill Act (OBBBA)

## *Trump Accounts*

- To be eligible for a Trump Account, the child must:
  - Be under the age of 18 at the end of the tax year;
  - Be a U.S. citizen; and
  - Possess a valid SSN
- The account must be formally designated as a Trump Account at the time of establishment and must adhere to all compliance and reporting rules
- No contributions may be made to a Trump Account once the child reaches age 18



# The One Big Beautiful Bill Act (OBBBA)

## *Trump Accounts*

- All funds within a Trump Account must be invested in a qualified mutual fund
- A qualified mutual fund must:
  - Track the S&P 500 or a similar broad-based U.S. equity index;
  - Include regulated futures contracts traded on recognized exchanges;
  - Not be industry- or sector-specific, though indexes based on market capitalization are permitted; and
  - Have annual expenses not exceeding 0.1% of the invested balance
- The annual contribution limit is **\$5,000 per beneficiary**, effective beginning in 2026, and indexed for inflation starting in 2028



# The One Big Beautiful Bill Act (OBBBA)

## *Trump Accounts*

- Contributions to Trump Accounts may be made by parents, relatives, employers, charitable organizations, or government agencies
- Employer contributions **up to \$2,500** are **excluded** from the employee's gross income, provided they are made under a compliant plan
- Charitable and governmental contributions are *not subject* to the \$5,000 annual cap, if made to benefit a defined group (e.g., based on birth year or geographic location)
- Contributions cannot begin before July 4, 2026, and must cease once the beneficiary turns 18



# The One Big Beautiful Bill Act (OBBBA)

## *Trump Accounts*

- Distributions from a Trump Account are generally not permitted before age 18, except in the case of:
  - A rollover to another Trump Account for a different minor;
  - A rollover to a qualified ABLE account; or
  - The correction of excess contributions
- If a beneficiary dies before reaching age 18, the account loses its tax-advantaged status and is included in the gross income of the estate



# The One Big Beautiful Bill Act (OBBBA)

## *Trump Accounts*

- A federal pilot program provides a **one-time \$1,000 contribution** to Trump Accounts for all U.S. citizens born between January 1, 2025, and December 31, 2028
- This contribution *does not count* against the \$5,000 annual contribution limit
- If a qualifying child does not have a Trump Account by the time they are claimed on a tax return, the IRS will automatically open one, unless the parent or guardian opts out
- The entire Trump Account provision becomes effective for tax years beginning after December 31, 2025, with initial contributions allowed starting in July 2026



# The One Big Beautiful Bill Act (OBBBA)

## *Trump Accounts*

- The Council of Economic Advisers (CEA) modeled growth projections for Trump Accounts based on historical returns from the S&P 500 over rolling 18- and 28-year periods
- Under a medium-return scenario and *maximum annual contributions*, the account balance is projected to reach \$303,800 by age 18 and \$1,091,900 by age 28
- If parents contribute *only half of the maximum amount* annually, projected balances are \$154,800 by age 18 and \$555,000 by age 28
- If *no additional contributions* are made beyond the initial \$1,000 deposit, the account would still grow to \$5,800 by age 18 and \$18,100 by age 28, assuming average market performance



# The One Big Beautiful Bill Act (OBBBA)

## *Car Loan Interest Deduction*

- The OBBBA introduces a **temporary** personal income tax deduction for interest paid on loans used to acquire **new** personal-use passenger vehicles
- This new deduction applies for tax years 2025 through 2028, and is available regardless of whether the taxpayer itemizes deductions or takes the standard deduction
- The provision marks a significant departure from pre-existing rules under §163(h), which generally treated personal vehicle loan interest as nondeductible personal interest
- The deduction is limited to a maximum of **\$10,000** per year in qualified vehicle loan interest



# The One Big Beautiful Bill Act (OBBBA)

## *Car Loan Interest Deduction*

- To be eligible to claim the deduction, the taxpayer must:
  - Purchase a **new** vehicle (used vehicles are *not eligible*);
  - Use the vehicle primarily for personal purposes (not for business or commercial use);
  - Ensure that the vehicle's original use begins with the taxpayer; and
  - Secure the vehicle loan with a first lien on the vehicle
- As discussed, the deduction is available to both itemizing and non-itemizing taxpayers
- The taxpayer must report the vehicle's VIN (Vehicle Identification Number) on their federal tax return for each year the deduction is claimed



# The One Big Beautiful Bill Act (OBBBA)

## *Car Loan Interest Deduction*

- Interest must be paid or accrued on **qualified indebtedness**, which is:
  - Incurred after December 31, 2024;
  - Used exclusively to purchase a new vehicle that meets statutory requirements; and
  - Secured by a first lien on the purchased vehicle
- If the original loan is later **refinanced**, interest on the refinanced portion may qualify for the deduction if the refinanced loan continues to meet all eligibility criteria
- Lenders or any recipient of qualified interest payments must file an information return with the IRS and provide a written statement to the taxpayer showing the total amount of interest received that may be deductible



# The One Big Beautiful Bill Act (OBBBA)

## *Car Loan Interest Deduction*

- To qualify for the new deduction, the vehicle must:
  - Be a new vehicle originally placed in service by the taxpayer (not previously owned);
  - Be primarily manufactured for use on public roads, highways, and streets;
  - Have at least two wheels;
  - Be classified as a “motor vehicle” under Title II of the Clean Air Act;
  - Be classified as one of the following types of vehicles: passenger cars, minivans, vans, SUVs, pickup trucks, or motorcycles
  - Have a gross vehicle weight rating (GVWR) under 14,000 pounds;
  - Have **final assembly** in the United States, meaning:
    - The manufacturing or final assembly occurs at a U.S.-based facility; and
    - All component parts necessary for mechanical operation are present upon delivery
    - Taxpayers may verify final assembly location by reviewing the vehicle information sticker at the dealership or using the National Highway Traffic Safety Administration (NHTSA) VIN Decoder, available at: <https://vpic.nhtsa.dot.gov/decoder/>
    - The Vehicle Identification Number (VIN) **must be included** on the taxpayer’s return to claim the deduction



# The One Big Beautiful Bill Act (OBBBA)

## *Car Loan Interest Deduction*

- The deduction does not apply to interest paid on loans for:
  - Used vehicles;
  - Leased vehicles;
  - Trailers, campers, RVs, or ATVs;
  - Unsecured vehicle loans or loans not secured by a first lien;
  - Vehicles not finally assembled in the United States; or
  - Vehicles that do not qualify as motor vehicles under the Clean Air Act or exceed the GVWR limit



# The One Big Beautiful Bill Act (OBBBA)

## *Car Loan Interest Deduction*

- The deduction is subject to MAGI phaseouts, which begin at:
  - \$100,000 MAGI for single filers; and
  - \$200,000 MAGI for married filing jointly filers
- The deduction **phases out** at a rate of \$200 for every \$1,000 of MAGI above the threshold
  - For example, a single filer with \$110,000 MAGI would lose \$2,000 of the deduction ( $\$200 \times 10$ )
- Once the phaseout fully eliminates the \$10,000 maximum, *no deduction is allowed* for taxpayers exceeding the upper MAGI thresholds



# The One Big Beautiful Bill Act (OBBBA)

## *Car Loan Interest Deduction*

### ***Example:***

- *Mariah purchases a new U.S.-assembled SUV in 2025, taking out a \$40,000 auto loan with 6% interest. She paid \$2,400 in interest during 2025, and the car/loan meet all requirements for the car loan interest deduction. She files using the Single filing status and has \$105,000 of AGI*
- *The base deduction limit is \$10,000, and the \$2,400 of interest paid is fully within that limit*
- *However, phaseout begins at \$100,000 for single filers. Mariah is \$5,000 over the threshold, so her deduction is reduced as follows:  $\$5,000/1,000 = 5$   
\*  $\$200 = \$1,000$  reduction*
- *Her resulting deduction is \$1,400 (\$2,400 interest paid less \$1,000 phaseout)*



# The One Big Beautiful Bill Act (OBBBA)

## *Qualified Small Business Stock Exclusion*

- Under §1202, noncorporate taxpayers could exclude a portion of capital gains from the sale of Qualified Small Business Stock (QSBS) held for more than five years, subject to certain limits
- The exclusion percentage was determined by the date of acquisition:
  - 50% exclusion for QSBS acquired after August 10, 1993, and before February 18, 2009; and
  - 75% exclusion for QSBS acquired after February 17, 2009, and before September 28, 2010
- The per-issuer limitation on eligible gain was the greater of:
  - \$10 million (\$5 million for MFS), reduced by prior excluded gain from the same issuer; or
  - 10 times the taxpayer's basis in the disposed QSBS
- A corporation was qualified to issue QSBS only if its aggregate gross assets did not exceed \$50 million before, at the time of, and immediately after stock issuance



# The One Big Beautiful Bill Act (OBBBA)

## *Qualified Small Business Stock Exclusion*

- Prior to the OBBBA, for QSBS acquired after September 27, 2010, a **100% exclusion of gain** applied if the stock was held for **more than five years**
- Gain excluded under §1202 was not treated as a tax preference item for AMT, applicable to post-2010 acquisitions
- QSBS was still subject to:
  - The same \$10 million per-issuer cap or 10x basis rule; and
  - The \$50 million gross asset test for qualifying corporations
- Prior law continued to disallow any gain exclusion if the QSBS holding period was less than five years, unless rolled over under nonrecognition provisions



# The One Big Beautiful Bill Act (OBBBA)

## *Qualified Small Business Stock Exclusion*

- The OBBBA ***significantly expands*** the benefits available under §1202, which allows noncorporate taxpayers to exclude gain from the sale of qualified small business stock (QSBS)
- The changes apply to stock acquired on or after July 4, 2025, and include tiered gain exclusions, increased per-issuer dollar caps, and a higher gross asset test for qualifying corporations
- These reforms are intended to stimulate investment in growing private companies, particularly startups and emerging businesses
- Investors in qualified startups and growth-stage businesses will benefit from greater exclusions, longer investment flexibility, and expanded issuer eligibility



# The One Big Beautiful Bill Act (OBBBA)

## *Qualified Small Business Stock Exclusion*

- As discussed, under prior law, 100% exclusion was available only for QSBS held more than five years (for stock issued after 2010)
- The OBBBA introduces a tiered structure for QSBS acquired on or after July 4, 2025:

New Tiered Gain Exclusion Structure	
Holding Period	QSBS Acquired After July 4, 2025
> 3 years	50% gain exclusion
> 4 years	75% gain exclusion
> 5 years	100% gain exclusion

- The percentage of gain excluded **increases** based on the holding period, incentivizing longer-term investment in small businesses



# The One Big Beautiful Bill Act (OBBBA)

## *Qualified Small Business Stock Exclusion*

- The OBBBA **raises** the lifetime per-issuer cap for QSBS gain exclusion from \$10 million to \$15 million for stock acquired after July 4, 2025
- The new \$15 million cap is indexed for inflation beginning in 2027, using 2025 as the base year
- For married taxpayers filing separately, the cap is reduced to \$7.5 million, as under prior law
- If the taxpayer *exceeds* the cap in a given year, the exclusion in subsequent years may be reduced to **zero**, even with inflation indexing



# The One Big Beautiful Bill Act (OBBBA)

## *Qualified Small Business Stock Exclusion*

- To qualify for the QSBS exclusion, the issuing corporation must meet an aggregate gross asset limit
- The OBBBA **raises** this limit from \$50 million to \$75 million, effective for stock issued after July 4, 2025
- The \$75 million threshold is also indexed for inflation beginning in 2027, rounded to the nearest \$10,000
- The change allows larger small businesses to qualify, broadening the reach of §1202 benefits



# The One Big Beautiful Bill Act (OBBBA)

## *Qualified Small Business Stock Exclusion*

- Stock that would otherwise be considered acquired before, on, or after the applicable date will instead be treated as acquired on the first day the taxpayer held the stock, in accordance with the holding period rules under §1223
- If stock is acquired in **multiple tranches or exchanges**, the acquisition date is based on the earliest applicable holding period
- As under existing law, excluded gain under §1202 is **not** treated as a tax preference item for AMT purposes
- The new gain exclusion tiers and increased limitations apply to tax years beginning after July 4, 2025



# The One Big Beautiful Bill Act (OBBBA)

## *Qualified Small Business Stock Exclusion*

- The tiered exclusion structure incentivizes capital to flow more flexibly into startups and growth-stage companies, allowing partial tax benefits for medium-term investments
- Increasing the per-issuer cap and asset threshold:
  - Broadens access to §1202 benefits for later-stage or capital-intensive private companies; and
  - Encourages continued investment beyond the seed and Series A stages, which often disqualified companies under the prior \$50M asset cap



# The One Big Beautiful Bill Act (OBBBA)

## Form 1099

- Prior to the OBBBA, under §§6041 and 6041A, the general threshold for filing Forms 1099-MISC and 1099-NEC was \$600
- The OBBBA raises the longstanding \$600 threshold for reporting payments to nonemployees, providing long-sought relief for businesses and simplifying compliance
- For payments made after December 31, 2025, the general reporting threshold **increases** from \$600 to \$2,000
- This change applies to common payments such as nonemployee compensation, rents, prizes, awards, and other reportable income types made in the course of business
- Beginning in 2027, the \$2,000 threshold will be adjusted annually for inflation
- The backup withholding rules under §3406 are also updated to reflect the inflation-adjusted threshold, aligning reporting and withholding compliance



# The One Big Beautiful Bill Act (OBBBA)

## Form 1099

- A **Third Party Settlement Organization (TPSO)** is a central organization that has the contractual obligation to make payments to participating payees (generally, a merchant or business) of third-party network transactions
- For TPSOs such as payment processors (e.g., PayPal, Venmo, etc.), §6050W originally required filing Form 1099-K only if both of the following conditions were met in a calendar year:
  - Gross payments exceeded \$20,000; and
  - The number of transactions exceeded 200
- The American Rescue Plan Act of 2021 (ARPA) significantly altered the landscape by lowering the Form 1099-K threshold to **\$600** and **removing** the transaction count requirement entirely, resulting in a substantial expansion of reportable transactions
- The ARPA changes were met with industry-wide concern due to the administrative burden and overreporting risks for casual sellers and gig economy participants



# The One Big Beautiful Bill Act (OBBBA)

## Form 1099

- The OBBBA **repeals** the American Rescue Plan Act of 2021 (ARPA) provision that lowered the Form 1099-K de minimis threshold to \$600
- Under the OBBBA, the pre-ARPA thresholds are **restored**, meaning that Form 1099-K is only required when **both** of the following are true:
  - The total gross payments to a payee exceed \$20,000; and
  - The total number of transactions exceeds 200 in the calendar year
- This rollback eliminates the requirement to issue 1099-Ks to many casual sellers and gig economy participants, addressing industry concerns about over-reporting



# The One Big Beautiful Bill Act (OBBBA)

## Form 1099

- The OBBBA also clarifies that both the dollar threshold and transaction count must be exceeded *before* backup withholding applies
- The reversion to the higher 1099-K threshold is retroactive and applies as if it were included in the original ARPA legislation
- The backup withholding rules for TPSOs are also updated to reflect the restored de minimis thresholds. Specifically:
- Backup withholding will only apply if both the \$20,000 and 200-transaction thresholds are met
- This change takes effect for calendar years beginning after December 31, 2024

# Thank you!

