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Understanding the One Big Beautiful Bill Act

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Overview

- On July 4, 2025, President Trump signed PL 119-21, the One Big Beautiful Bill Act (OBBBA) into law.

- It’s called the “Big Beautiful Bill” for good reason.
    - I’m going to attempt to cover the tax provisions that are most likely to impact your clients. I’m skipping quite a bit in the interest of time.

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Individual Provisions

Individual Income Tax Rates

- Tax rates from the Tax Cuts and Jobs Act (TCJA) are made permanent.
- Rates were set to expire after December 31, 2025, and reset to “Obama Era” tax rates.

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Individual Income Tax Rates

Income Range – MFJ	2026 Rates Before OBBBA	2025 Rates
$1 to $24,500	10%	10%
$24,501 to $99,550	15%	12%
$99,551 to $201,050	25%	22%
$201,050 to $212,200	28%	22%
$212,201 to $304,950	28%	24%
$304,951 to $405,050	33%	24%
$405,051 to $514,400	33%	32%
$514,401 to $544,550	33%	35%
$544,551 to $615,100	35%	35%
$615,101 to $771,550	39.6%	35%
Over $771,550	39.6%	37%

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Auto Loan Interest Deduction

- Qualifying auto loan interest paid on personal vehicles is deductible (regardless of whether a taxpayer itemizes).
- Eligibility Criteria:
  - Vehicle must be new (not used).
  - Purchased between 2025-2028.
  - Must be for personal use (not a business vehicle).
  - The loan must be secured on the vehicle as a first lien.
  - Final assembly of the vehicle must have been inside the United States (check the VIN Number).
  - Needs to have a GVWR of less than 14,000 pounds.
  - Does not include ATVs, campers, and used cars.
  - Phase out of the deduction begins when income levels exceed $100,000 single or $200,000 joint.
- Loan companies will be required to send an interest form to taxpayers (like mortgage 1098s). This will go so far as to report the year, make, model, and VIN of the vehicle securing the loan. The VIN is also reported on the Form 1040.

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State and Local Tax

- TCJA limited the state and local tax deduction to $10,000.
  - This limitation was set to expire after 2025.
- OBBBA makes the limitation permanent—with a temporary increase in the cap to $40,000:
  - $40,000 cap is for tax years 2025-2029.
- For taxpayers with an adjusted gross income more than $500,000, the amount is phased down as income goes up (not below $10,000).

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Mortgage Interest

- TCJA made changes to the mortgage interest deduction:
  - Eligible acquisition indebtedness was reduced from $1 million to $750,000.
  - Interest on $100,000 of home equity debt previously deductible before TCJA, was made non-deductible by TCJA.
  - These changes were temporary and set to expire after 2025.
- OBBBA makes these changes permanent.
- ***Planning tip—interest tracing rules can be used on the home equity line interest if the funds were used for business/investments, etc.***

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Charitable Contribution Limits

- Contributions made after December 31, 2025, will be subject to a "floor limitation."
- If a person itemizes their deductions, they may only claim a charitable contribution deduction to the extent that their total contributions exceed 0.5% of their adjusted gross income.
- Example – Taxpayer with an adjusted gross income of $100,000 in 2026 makes a total of $5,000 in charitable contributions:
  - $100,000 * 0.5% = $500—only the amount greater than $500 is deductible, in this case that would be $4,500.
  - There is no carryforward—this amount is permanently lost.
- ***Planning tip—accelerate charitable giving to 2025 and/or consider a "bunching" strategy.***
- C corporations now have a 1% floor limitation.

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Itemized Deduction Limitation

- This is a new provision created by OBBBA—goes into effect for the 2026 tax year.
    - The concept is that total itemized deductions are limited such that no itemized deduction can provide more than a 35% income tax benefit.
- Example:
    - Single taxpayer has $100,000 of itemized deductions.
    - Taxable income of $700,000 (start of 37% bracket is $609,350) (700,000 – 609,350 = 90,650).
    - Lesser of the itemized deduction amount ($100,000) or 2/37*90,650 = $4,902.
    - Allowable itemized deductions = $95,098 (100,000 – 4,902).
- ***Planning tip—maximize itemized deductions in 2025 before this goes into effect (DAF contributions, charitable lead trusts, etc.).***

Alternative Minimum Tax

- Higher exemption amount provided by the TCJA was set to expire at the end of 2025.
- This higher exemption amount was made permanent. OBBBA did unwind the inflation adjustments that have occurred from 2018-2025 and reset us back to the 2018 levels.
- Also, the phaseout happens much more quickly (50% of exemption rather than 25%).

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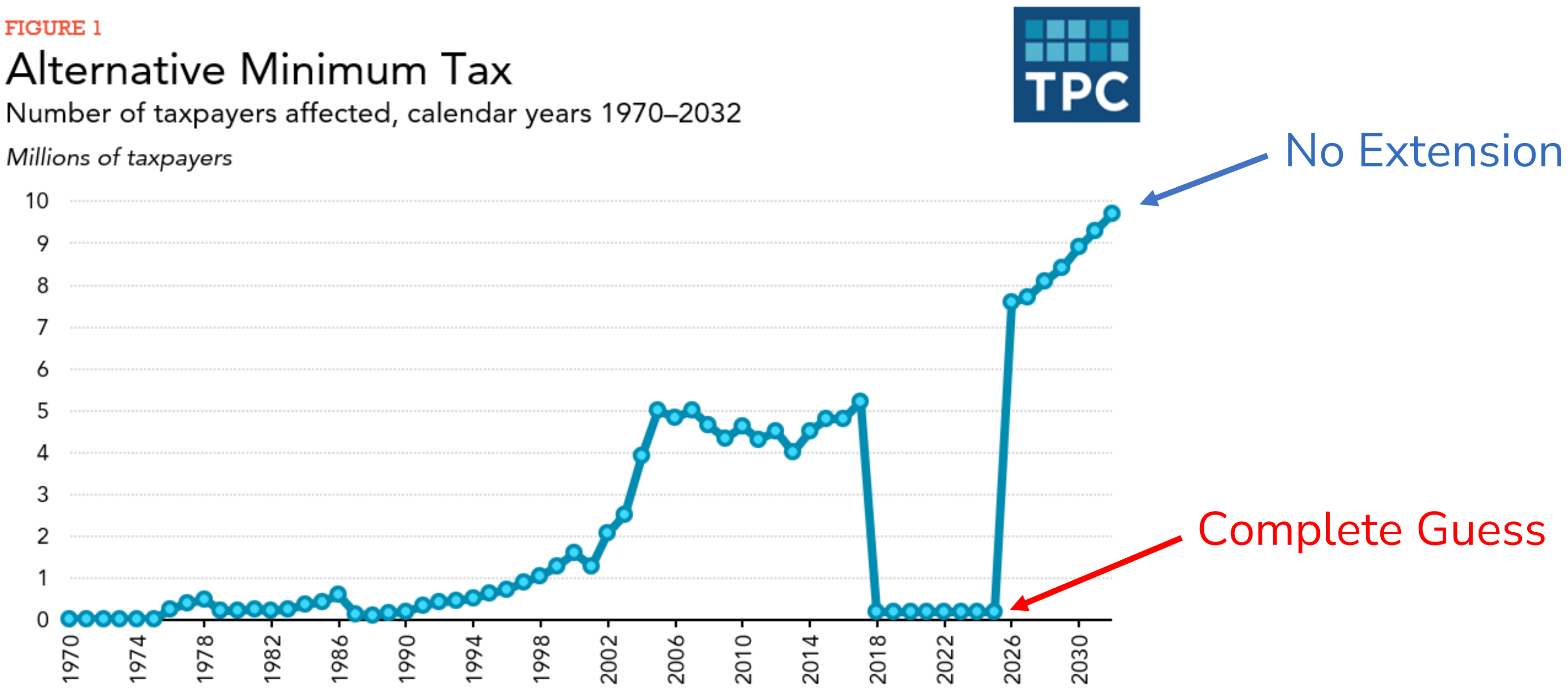
Alternative Minimum Tax

FIGURE 1

Alternative Minimum Tax

Number of taxpayers affected, calendar years 1970–2032



Sources: Urban-Brookings Tax Policy Center Microsimulation Model (versions 0304-3, 0308-4, 1006-1, 0613-1, 0722-2); Harvey and Tempalski (1997); private communication from Jerry Tempalski; and SOI Division of Internal Revenue Service.
Note: Data includes those with direct AMT liability on Form 6251, those with lost credits, and those with a reduced deduction for years 2001-2032. Tax units that are dependents of other taxpayers are excluded from this analysis.

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No Tax on Tips

- Eligibility:
    - New temporary deduction for 2025-2028.
    - Limited to $25,000 annually.
    - Income phase outs start at $150,000 single and $300,000 joint.
    - Must be in occupations normally receiving tips (IRS provided some guidance on 09/19/2025).
    - Qualified tips must be paid voluntarily by the customer and not be subject to negotiation:
        - No service charges.
        - No 18% automatic gratuity for large groups.
        - If the tip is added with no option for the customer to disregard of modify, it does not count.
        - Must not be amounts received for an illegal activity.

What Employers Need to Know

- There will be ***no*** changes to the 2025 W-2 (2026 will be updated with codes for box 12).
- W-2 employees must be given a “tip code” to take the deduction—attached to the W-2 as supplemental information in 2025 (2026 adds 14B for tip occupation code and 12TP for tips):
    - This tip code designates the industry and their status.
    - Link to the tip codes: https://home.treasury.gov/system/files/136/Tipped-Occupations-Detailed-8-27-2025.pdf

Treasury Tipped Occupation Code (TTOC)	TTOC Occupation Title	TTOC Occupation Description	TTOC Illustrative Examples	Related Standard Occupational Classification (SOC) System Code(s)[1]
801	Parking and Valet Attendants	Park vehicles or issue tickets for customers in a parking lot or garage. May park or tend vehicles in environments such as a hotel or restaurant. May collect fee.	Parking garage attendant, valet parker	53-6021
802	Taxi and Rideshare Drivers and Chauffeurs	Drive a motor vehicle to transport passengers on a planned or unplanned basis.	Cab driver, personal driver	53-3054
803	Shuttle Drivers	Drive a motor vehicle to transport passengers on a planned route and scheduled basis. May collect a fare. Excludes taxi and rideshare drivers, chauffeurs, municipal bus drivers, and school bus drivers.	Airport shuttle driver, hotel shuttle driver, rental car shuttle driver	53-3053

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No Tax on Overtime

- Maximum deduction is $12,500 single and $25,000 joint.
- Deduction is phased out for taxpayers with income more than $150,000 single/$300,000 joint.
- Applies to tax years 2025-2028.
- Available to those receiving "qualified overtime compensation"—as defined by the Fair Labor Standards Act (FLSA).
- Applies to the overtime portion of the pay (e.g., the "half" in time and a half).
- Deduction is available regardless of whether the person itemizes.
- This does not apply to excess amounts earned during holidays (e.g., holiday pay plus regular).
- ***Note—the bill has been introduced to fix some overtime problems (union, farm workers, etc.)—"No Tax on Overtime for All Workers Act."***
- ***IRS Notice 2025-62 basically exonerates employers for tax year 2025***

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What Employers Need to Know

- There are basically no changes to current payrolls (still subject to income tax withholding and payroll taxes)—the deduction is claimed on Form 1040.
- Employees ***cannot*** self-designate the overtime amount. Employers will need to provide the employees the amount of overtime they paid.
- Needs to be paid in accordance with FLSA—there is concern that employees in some states may not qualify because those states require overtime as calculated by working more than eight hours in a day (Alaska, California, Colorado, and Nevada).
- Will farm labor qualify?
    - Example: Minnesota requires overtime when working more than 48 hours—likely won't qualify.
- There will be no modifications to the 2025 W-2— the 2026 W-2 will have codes (box 12 code TT).

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Tax on Farmland Sales

- Brand new provision related to the sale of "certain farmland property."
- Must be "certain farmland property" sold to a "qualified farmer."
- Property must be real property located in the U.S.
- Must be used as a farm or leased to a qualified farmer for farming purposes for substantially all the prior 10 years.
- Sale must be subject to legally enforceable restriction prohibiting non-farm use for 10 years after the sale.
- The seller is allowed to pay the capital gains tax arising from the sale in four equal annual installments, rather than all at once in the year of the sale.
- ***Note—this is different than an installment sale that delays the income as this calculates the tax at current amounts and then adds it in subsequent years.***

Business Provisions

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Bonus Depreciation

- Under TCJA bonus depreciation was in phase down (schedule to be 40% for 2025).
- OBBBA restores 100% bonus depreciation—***permanently***…until it gets changed.
- Applies to property acquired and placed in service after January 19, 2025.
    - ***Note—watch building/long-term construction projects. If written, binding contract was in place prior to January 20, it's deemed to be acquired at the time the contract was signed (there is potential for transition regulations that could possibly allow self-constructed property to fall under the 100%—stay tuned).***

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Qualified Production Property

- 100% bonus depreciation of “qualified production property” used in a “qualified production activity.”
- What is qualified production property?
  - Must be placed in service inside the U.S.
  - Original use commences with the taxpayer—read new.
  - Construction begins after January 19, 2025, and before January 1, 2029.
  - Placed in service before January 1, 2031.
- It excludes leased property, portion of the building used for offices, lodging, parking, sales, R&D, software development, engineering, and other non-production functions.

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Qualified Production Property

- What is a qualified product?
  - Tangible personal property
  - Does not include food or beverages prepared in the same building as a retail establishment in which it is sold.
- How is this different from normal 100% bonus depreciation?
  - Bonus depreciation applies to property with a depreciable life of 20 years or less.
  - This applies to all depreciable property.
  - This means that a taxpayer can construct a factory or production facility and take 100% bonus depreciation on the entire structure including the building envelope.

§179

- Dollar limit of §179 has been increased again—now up to $2,500,000 for tax year 2025.
- Phaseout for purchases is now at $4,000,000.
- These amounts are adjusted for inflation.

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State Conformity

- North Dakota – By default, North Dakota conforms to federal income tax law changes.
- According to the Bismarck Tribune, North Dakota income tax revenue is going to drop by roughly $130 million in the 2025-2027 biennium.
- Minnesota – Minnesota is a "static conformity" state. This means that they have written their tax code based on federal law as of a certain date (05/01/2023).
- The Minnesota legislature is not set to meet until February 17, 2026.
    - ***Note—this likely means that if you file a Minnesota return, you and your accountant will need to have a discussion on whether you should extend your 2025 tax return.***

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Example of MN Nonconformity

- $100,000 of 100% Bonus depreciation is taken in 2025 (15 year land improvements)

	Federal	Conformity	Non-Conformity
Federal Bonus	100,000	100,000	100,000
Bonus under MN Law	-	100,000	40,000
Subject to Depreciation	-	-	60,000

Example of MN Nonconformity

- $100,000 of 100% Bonus depreciation is taken in 2025 (15 year land improvements)

Adjustments	Federal	Conformity	Non-Conformity
MN Bonus Addback		80,000	32,000
Bonus Disallowed			60,000
First Year Depreciation	-	-	(3,000)
Net Deduction to Income	100,000	20,000	11,000

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Meals

- Business meals – Food and beverages incurred in the ordinary course of conducting business—meals with clients, customers, or meals provided during business meetings or while traveling for business.
  - These meals are 50% deductible—they were 50% before TCJA and they will continue to be 50% going forward.
  - Holiday parties, annual picnics, and other meals provided during recreational, social, or similar activities primarily for the benefit of non-highly compensated employees are 100% deductible.
- Meals “for the convenience of the employer” – Furnished to employees on the employer’s business premises for a substantial non-compensatory business reason:
  - Employees can’t leave premises because they need to be on call during emergency periods.
  - Business requires employees to have a short meal period (30 minutes), and employees couldn’t be expected to eat elsewhere.
  - ***Before 2018 these meals were 100% deductible—between 2018 and 2025 these meals were 50% deductible—starting in 2026 these meals are no longer deductible.***

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Business Interest Expense

- Business interest expense limitation was one of the items in TCJA meant to raise revenue to help offset other tax cuts **(Note – Gross Receipts in excess of $30 million)**
- Interest expense more than 30% of "adjusted taxable income" is limited and carried forward to a future year.
- Formula for adjusted taxable income:
    - 2018-2021 = EBITDA (taxable income + depreciation + interest)
    - 2022-2024 = EBIT (taxable income + interest)—***this resulted in a large interest expense disallowance for many taxpayers.***
    - 2025 (permanent) = back to the original formula of EBITDA.

Business Interest Expense

- Example - $100,000 of taxable income after $60,000 of interest expense and $250,000 of Depreciation Expense

	2024 EBIT	2025 EBITDA
Taxable Income	100,000	100,000
Intrerest Expense	60,000	60,000
Depreciation Expense	-	250,000
Adjusted Taxable Income	160,000	410,000
Cap on Interest Expense	48,000	123,000
Interest Limitation	12,000	-

Qualified Business Income Deduction

- Set to expire after 2025.
- This deduction has been permanently extended.
- Changes beginning in the 2026 tax year:
  - Increase in "phase-in range"—previously $50,000 single and $100,000 joint, now $75,000/$150,000 single/joint.
- New minimum QBI deduction – Taxpayers with at least $1,000 in non-passive qualified business income will receive a minimum $400 deduction.

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Research & Development (R&D)

- What are research and experimental expenditures?
  - Costs related to activities intended to discover information that would eliminate uncertainty concerning the development or improvement of a product, process, technique, formula, invention, or software.
- Prior to TCJA, these costs were deductible in the year they were incurred.
- TCJA required these costs to be capitalized and amortized over five years beginning in 2022.
- OBBBA provides that these expenses are now deductible when incurred.
- Additionally, OBBBA has provisions that allow for the accelerated expensing of amounts that were capitalized during TCJA.

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Transition of R&D Expenses

- Retroactive options for small taxpayers (under $30 million in gross receipts):
    - These taxpayers may apply the new expensing rules retroactively to the 2022-2024 tax years.
    - Amended returns would need to be filed.
    - These taxpayers have one year to make the election from the date of enactment (July 4, 2026—America's 250th birthday).
    - Plus, all the options for non-small taxpayers.
- Options for non-small taxpayers:
    - Keep capitalizing and amortizing.
    - Unwind the entire previously unamortized amount entirely in 2025.
    - Split the unamortized amount between 2025 and 2026.
- ***Note—this is technically a change in accounting method.***

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Non-OBBBA Change

- By Executive Order 14247, the IRS has been instructed to phase out paper checks.
- This Order has an effective date of ***September 30, 2025***.
- Refunds issued after this date must be direct deposited or face delays. IRS will contact those without direct deposit information and hold the refund for 30 days prior to issuing the paper check.
- This Executive Order also covers ***checks sent to the government*** (aka tax payments).
- The IRS has said to continue using payment vouchers for the time being, but it will issue guidance in the coming months.

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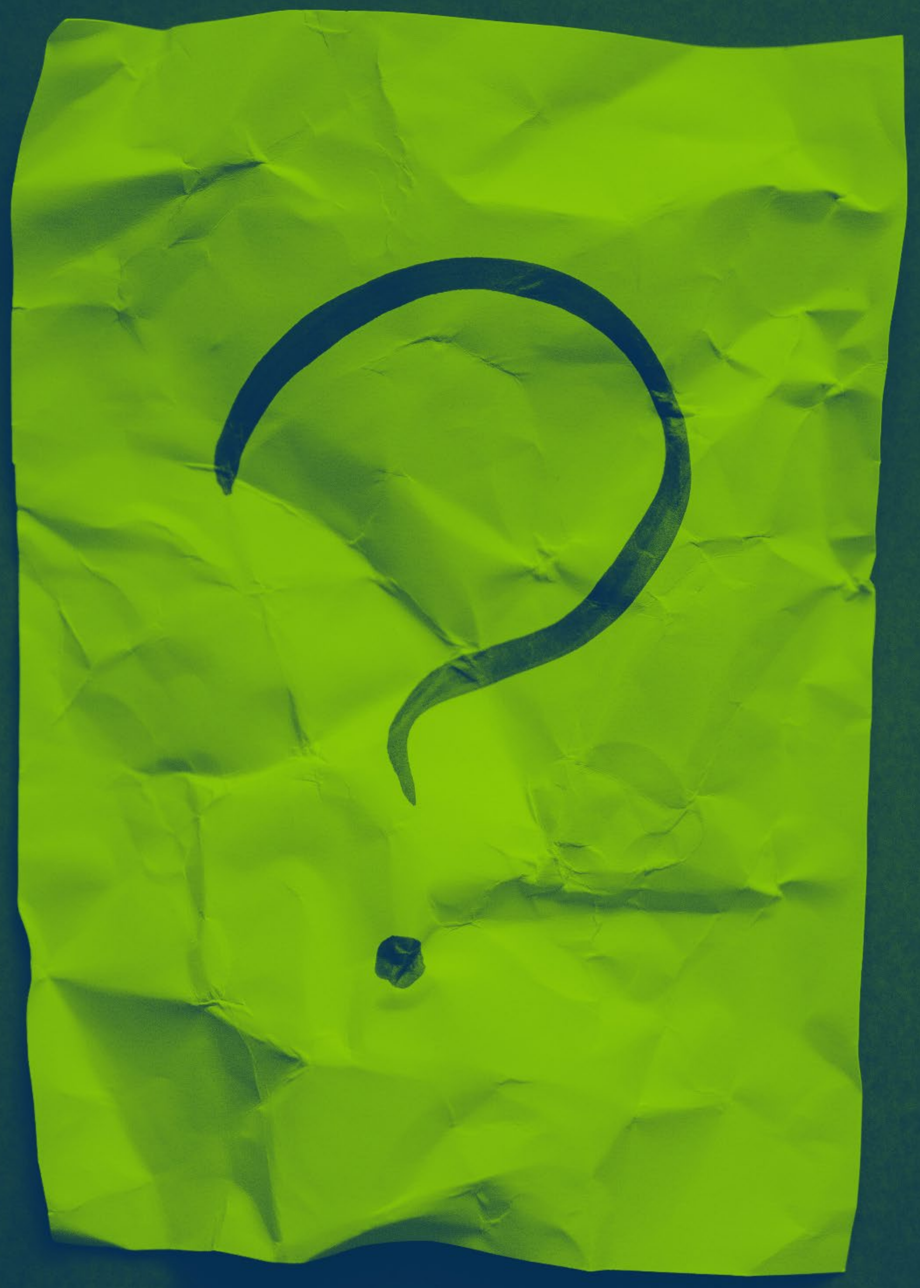
Estate & Gift Limits

- Tax Cuts and Jobs Act essentially doubled the estate exemption amount—$13 million(ish) in 2025.
- This amount was set to revert to pre-TCJA levels ($7 million in 2026).
- OBBBA changed 2026 to $15 million and began indexing it for inflation in 2027:
  - This is a permanent change.

Questions



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Thank You