July 2025

Tax Talk

A publication of Bridges & Dunn-Rankin, LLP

Inside this issue:

Dear Clients and Friends,

On July 4, 2025, President Trump signed into law *The One Big Beautiful Bill Act* (OBBBA). The legislation, which was passed by the House and Senate on strictly party lines with no Democratic votes in favor and all but a handful of Republicans supporting it, is largely an extension of provisions of *The Tax Cuts and Jobs Act* (TCJA) legislation from 2017 which were otherwise set to expire at the end of 2025. There are, however, other provisions in the legislation, which is estimated to add approximately $3 trillion to the deficit over the next 10 years.

While the text of the legislation itself (which is mostly a confusing and complicated reference to amendments being made to existing code sections) runs 870 pages, we will try to boil it down here to a high-level summary of the tax-related provisions most likely to be of interest to our clients or of general interest.

We have added three new members to our team since the last issue of our newsletter: Charlie Lundquist, Thomas Ryerse and Cameron Yocum. We will profile Charlie in this issue and Thomas and Cameron in future issues.

We hope that you will enjoy this issue and gain from it some useful information.

Sincerely,

Kent Bridges

Kent Bridges,
Managing Partner

The One Big Beautiful Bill Act (OBBBA)

20% QBI deduction for flow-through income is made permanent – TCJA 2017 introduced a new deduction, the “qualified business income deduction”, whereby owners of businesses conducted through flow-through entities can claim a deduction on their personal returns for up to 20% of the K-1 income from qualifying businesses. To be eligible for the deduction, the income must be “qualified business income” (e.g. not interest, dividends or capital gains) and not from a “specified services trade or business” (generally professional services firms in industries like accounting, law, health and consulting), and the deduction is generally limited to the lesser of 20% of K-1 profit or 50% of the W-2 wages paid by the business (with an important exception to these limitations for singles with income below an inflation-adjusted level which is currently $197,300 for singles and $394,600 for married couples). For high-income taxpayers whose income is predominantly K-1 income from an eligible flow-through entity with sufficient W-2 wages paid, this effectively means that their marginal Federal rate is 29.6% rather than the otherwise rate of 37%. This very valuable deduction was scheduled to expire at the end of 2025, but now has been made permanent. For many of our clients, this is far and away the most important provision in the OBBBA.

Section 179 and depreciation - As with most of this tax legislation, the new rules for depreciation or immediate expensing of fixed assets are complicated, but the basic gist of these rules is that via a combination of enhanced Section 179 expensing and bonus depreciation rules the cost of most depreciable assets (other than buildings) can be immediately expensed; whereas “bonus depreciation” was otherwise being phased down. Also, OBBBA provides 100% bonus depreciation for “qualified production property” (e.g. factories) for which construction begins after January 19, 2025 and before January 1, 2029.

IRC 1202 gain exclusion enhanced – IRC 1202 provides that if you invest in the stock of a qualifying C-corp and hold the stock for at least 5 years before selling, then you can exclude from your taxable income gain up to the greater of $10,000,000 or 10x the amount invested. For shares acquired after July 4, 2025, OBBBA increases the potential gain exclusion to $15,000,000, increases the size of eligible companies (as determined at the time the shares are issued) from $50 million to $75 million, and provides for a new partial gain exclusion for qualifying shares held for less than 5 years (50% exclusion for stock held at least 3 years and 75% for stock held at least 4 years). As under prior law, professional service type firms (e.g. accounting, consulting, law and health) are not eligible.

R&D expense capitalization requirement repealed – Prior to 2022, R&D expenses enjoyed the best of all worlds. Such expenses could be immediately deducted, while also potentially yielding a tax credit. TCJA 2017 provided that beginning with tax year 2022 such expenses had to be capitalized and amortized over 5 years if the R&D was performed in the U.S. or 15 years if the R&D was performed outside the U.S. OBBBA repeals this very unfavorable rule for 2025 and beyond for R&D performed in the U.S., but leaves such in place for R&D performed outside the U.S. Smaller companies (generally average annual revenue of less than $31 million) can choose to apply the new rules retroactively (e.g. potentially amending returns for 2022, 2023 and 2024 to claim deduction for amounts capitalized) or follow the rules required of larger companies (writing off the previously capitalized amounts either in 2025 or ratably over 2025 and 2026).

Qualified opportunity zone program made permanent – TCJA 2017 provided new rules whereby individuals could defer tax on capital gain (and potentially permanently avoid tax on a portion

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Member in the Spotlight — Charlie Lundquist

Charles T. Lundquist, CPA, CVA, CGMA

Charlie holds a BS in Accounting from Samford University and an MBA in Finance from The University of Mississippi. He also holds the Certified Valuation Analyst (CVA) designation from the National Association of Certified Valuators and Analysts and the Chartered Global Management Accountant (CGMA) designation from the AICPA. Prior to joining Bridges & Dunn-Rankin, he led the regional real estate practice of a national firm, and he also has experience working with firms based in Mississippi, Georgia, and California.

Charlie's practice focuses on providing tax planning and compliance for individuals, partnerships, corporations, estates, and trusts, and he is also experienced in preparing business valuations and providing litigation support services.

Charlie is a member of the AICPA, GSCPA, and NACVA, and a past board member and treasurer of AADD, Inc. He and his wife Lisa live in Smyrna and have two daughters.

Bridges & Dunn-Rankin is proud to have Charlie Lundquist as a member of our firm.

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thereof and the appreciation on the qualifying investment) by reinvesting the capital gain into a "qualified opportunity fund", which is a partnership which invests in a "qualified opportunity zone". This program was schedule to expire for investments made after 2026, but OBBBA makes it permanent.

Low-income housing tax credit (LIHTC) enhanced – The Federal government (and many states) offer a tax credit to incentivize investment in multi-family residential housing for lower income families. OBBBA makes permanent the 12% increase in state allocations of 9% LIHTCs and reduces from 50% to 25% the bond financing threshold for projects funded with private activity bonds (making it easier for projects to qualify for the 4% LIHTC).

Excess business losses – Prior to TCJA 2017, a business loss from a flow-through entity (assuming not otherwise limited by the basis rules, the at-risk rules, the passive activity loss rules or the hobby loss rules) could generally offset any other income of the taxpayer (e.g. W-2, interest, dividends, capital gains) without limit. TCJA added a new limitation whereby the amount of business loss of an individual (as aggregated from all businesses) which can offset other sources of income is limited to $313,000 for singles and $626,000 for couples (2025 amounts, as adjusted annually for inflation). Any amount in excess of this limitation becomes a net operating loss carryforward to the next year. This unfavorable rule was scheduled to expire at the end of 2025, but has now been made permanent.

Business interest expense limitation – TCJA 2017 placed new limits on the deduction for business interest expense. For 2018 – 2021, the limitation was generally 30% of EBITDA. Thereafter, the limitation was to be 30% of EBIT. OBBBA restores the limitation to the rule that was in effect for 2018 – 2021 (30% of EBITDA). There are important exceptions to these limitations. Companies with average annual revenue of $31 million or less and also certain industries (most notably real estate if a proper election is made, but also floor plan financing of auto dealers and regulated utilities) are exempted from this rule. Real estate companies have to accept slightly longer depreciation lives if they elect out of the interest expense limitation.

PTET SALT workaround – Prior to TCJA 2017, there was no limit on how much of a deduction for state and local taxes that an individual could claim on their personal return as an itemized deduction (although the alternative minimum tax often clawed back some or all of the benefit if the income were primarily from qualified dividends or long-term capital gain). TCJA 2017 capped such deductions at $10,000 per year (now potentially up to $40,000 under the new rules). Many states enacted "workarounds" to this limitation, whereby a passthrough entity (e.g. S-corp or partnership) can elect to pay tax at the entity level and claim a business expense deduction at the entity level, rather than having the state income tax paid at the personal level and subject to limitation on the owner's personal return. There had been much talk of OBBBA potentially limiting or eliminating such workarounds. However, OBBBA does not do so; leaving these workarounds in place.

Tax on investment income of private colleges – Prior to TCJA 2017, private colleges and universities were not subject to income tax on their investment income. TCJA 2017 provided for a 1.4% tax on such income, unless the institution had fewer than 500 students. OBBBA increases the small college exemption to 3,000 students, but increases the rate of tax to 4% for institutions with a per student endowment of between $750,000 and $2,000,000 and to 8% for institutions with a per student endowment of over $2,000,000.

No change to individual rates – TCJA 2017 reduced individual tax rates on ordinary income (e.g. the top rate was reduced from 39.6% to 37%). Rates were scheduled to return to pre-TCJA levels in 2026. However, OBBBA makes the lower rates permanent. It should be noted that, inclusive of the 3.8% Medicare tax on net investment income and higher earnings, the top Federal rate can actually be 40.8%.

Individual alternative minimum tax (AMT) – Prior to TCJA 2017, many individuals (perhaps 50% of our clients) were subject to the "alternative minimum tax". TCJA substantially increased the AMT exemption amounts and the income levels at which the exemption is phased out, greatly reducing the number of taxpayers subject to the AMT. These favorable changes were set to expire at the end of 2025, but OBBBA makes such higher amounts permanent.

Increase in dependent care assistance – The amount of dependent care assistance which can be excluded from W-2 income is increased (for tax years beginning after 2025) from $5,000 to $7,500.

No tax on tips – On the campaign trail, President Trump promised no tax on tips if he were elected. OBBBA creates a new temporary deduction (through 2028) of up to $25,000 per individual against tip income for singles with income below $150,000 and married couples with income below $300,000.

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New IRC section 224 provides that to be eligible for the deduction the amount must be paid voluntarily (i.e. not a mandatory service charge), must be paid to a person in an occupation where tipping was customary prior to 2025, and cannot be paid to someone in a professional services type business. For each $1,000 of income over the threshold amount ($150,000 for singles and $300,000 for married couples), the deduction maximum is reduced by $100.

No tax on overtime – On the campaign trail, President Trump promised no tax on overtime if he were elected. OBBBA creates a new temporary deduction (through 2028) of up to $12,500 for singles and $25,000 for married couples against the *premium portion* of overtime pay (with a phaseout of the benefit for singles with income over $150,000 and married couples with income over $300,000). New IRC section 225 provides that to be eligible for the deduction the amount must be "qualified overtime compensation" under section 7 of the FLSA that is in excess of the regular rate of pay. For each $1,000 of income over the threshold amount ($150,000 for singles and $300,000 for married couples), the deduction maximum is reduced by $100.

Standard deduction - Individuals have the choice of either claiming itemized deductions or claiming a "standard deduction". TCJA 2017 roughly doubled the standard deduction amounts. That significant increase, combined with the significant limitation on the deduction for state and local taxes, has meant that substantially fewer taxpayers have itemized in recent years. The higher standard deduction amounts ($15,750 for singles and $31,500 for married couples for 2025, with inflation adjustment thereafter) were scheduled to be reduced beginning in 2026. OBBBA, however, preserves these higher amounts.

Personal exemptions - Pre-TCJA law provided a personal exemption of $4,050 for each member of the family, with such amount being phased out for higher income taxpayers. TCJA eliminated the personal exemption for 2018 - 2025. OBBBA makes this repeal permanent; except that taxpayers 65 and older receive an exemption deduction of $6,000 each, so long as their income is below $75,000 for single filers and $150,000 for married couples (with a phaseout for income above these levels).

Limited charitable deduction for nonitemizers – In general, you have to itemize your deductions in order to deduct charitable donations. OBBBA, however, provides non-itemizers the ability to claim a charitable donations deduction of up to $1,000 for singles and $2,000 for married couples.

Limit on deduction for state and local taxes (SALT) increased – Prior to TCJA 2017, there was no limit on how much of a deduction for state and local taxes that an individual could claim on their personal return as an itemized deduction (although the alternative minimum tax often clawed back some or all of the benefit if the income were primarily from qualified dividends or long-term capital gain). One of the most controversial changes of TCJA 2017 was a cap on such deductions at $10,000 per year. In order to get the votes of Republican members of Congress from "blue states" (which typically have high individual income tax rates), OBBBA increases the cap (for 2025 to 2029) to $40,000; but only for those with income of $500,000 or less. For those with income over $500,000 (with such threshold increased for inflation in future years), the cap is reduced (but not below $10,000) by 30% of the amount of income over the threshold amount.

Auto interest deduction – Since 1987, there has been no income tax deduction for interest incurred on a loan to purchase a personal use automobile (unless you met the limited exception for home equity indebtedness). OBBBA provides a deduction for 2025 – 2028 for up to $10,000 per year for interest incurred on a loan to purchase a new vehicle (with phaseout of the deduction for singles with income over $100,000 and married couples with income over $200,000). The loan must be secured by a first lien on the vehicle.

Mortgage interest – TCJA placed a limit of $750,000 on the amount of personal mortgage debt for which interest can be deducted as qualified residence interest. This limitation amount was schedule to revert to $1,000,000 in 2026, but OBBBA makes the $750,000 limitation permanent.

Charitable deduction floor of 0.5% of income – OBBBA provides a new rule whereby charitable donations must exceed 0.5% of income before the deduction kicks in.

Cash charitable can offset up to 60% of income – Prior to TCJA, the deduction for charitable contributions of cash could not exceed 50% of current year income (with any excess carrying forward up to 5 years). TCJA temporarily (through 2025) increased this percentage to 60%. OBBBA makes the 60% permanent.

Casualty and theft losses - Under pre-TCJA law, casualty and theft losses were deductible if such exceeded 10% of your income for the year. TCJA eliminated this deduction for 2018 - 2025, unless such losses were incurred in a federally-declared disaster. OBBBA makes the requirement that the losses be incurred in a federally-declared disaster area permanent, but expands such to include state-declared disaster areas.

Moving expenses – Under pre-TCJA law, employers could exclude from taxable pay reimbursement of qualified moving expenses or the employee could take deduction if not reimbursed. TCJA temporarily repealed the exclusion and the deduction (except for members of the Armed Forces) for 2018 – 2025. OBBBA makes the repeal permanent.

Miscellaneous itemized deductions - Under pre-TCJA law, investment expenses and unreimbursed business-related expenses incurred as an employee were deductible, although a 2% of income limitation and addback in computing alternative minimum tax often eliminated the benefit. TCJA temporarily eliminated miscellaneous itemized deductions for 2018 - 2025. OBBBA makes the repeal permanent.

Gambling losses – The deduction for gambling losses has historically been limited to the amount of gambling winnings. OBBBA further limits the deduction for gambling losses to 90% of the losses.

3% of AGI floor - Under pre-TCJA law, once your income went over a certain level, your itemized deductions were reduced by 3 cents for each dollar of income thereafter. This limitation (called the "Pease limitation") was temporarily repealed for 2018 - 2025. OBBBA permanently repeals this

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limitation and instead creates a new limitation on itemized deductions which is a reduction of such by 2/37th of the lesser of the amount of the deductions or the amount by which taxable income exceeds the dollar amount at which the 37% rate bracket kicks in.

New credit for donations to scholarship-granting organizations – For tax years 2027 and thereafter, individuals may claim a tax credit of up to $1,700 for donations to organizations which have been created pursuant to the new law for the purpose of providing scholarships to students from lower income families to enable them to attend a private school. No income tax deduction can be claimed for any amount for which the credit is claimed, and the credit must be reduced by the benefit of any related state income tax credit.

Child and dependents tax credits – OBBBA increases the child tax credit to $2,200 per child (up to age 17), and continues the $500 credit for other dependents (including children 17 or older). The credits are phased out for singles with income over $200,000 and married couples with income over $400,000.

Changes to adoption credit – For those with income up to a certain level (approximately $250,000 for 2024), tax law provides an adoption credit of up to $16,810 per child adopted. In the past, this credit could only offset income tax otherwise incurred. For 2025 and beyond, up to $5,000 of this credit will be "refundable".

Termination of various renewable energy credits – The credits for previously-owned electric vehicles, new electric vehicles, and commercial electric vehicles expire for vehicles acquired after September 30, 2025, the credits for energy efficient home improvements and residential clean energy expire on December 31, 2025, and the credits for alternative fuel vehicle refueling property and new energy efficient homes expire on June 30, 2026.

Trump accounts – OBBBA creates a new tax-deferred investment account for children (IRC 530A) called a "Trump account". Effective for tax years beginning after 2025, these accounts can be set up for children under the age 18, and parents, relatives and employers can contribute up to $5,000 per year to the account until the child reaches age 18. Nonprofit organizations can contribute more than $5,000, but the contributions must come from unrelated organizations and be provided to all children within a qualified group. The funds must be invested in a diversified fund that tracks an established index of U.S. equities, and generally no distributions may be taken prior to age 18. Employers can contribute up to $2,500 per year without such being treated as taxable income of the parent, and the U.S. Government will contribute $1,000 for each child born 2025 – 2028. Distributions after age 18 will be taxed similar to, but not exactly the same as, distributions from an IRA account.

Use of 529 plan money for elementary and secondary education – Prior to TCJA 2017, money in Section 529 plans could be used tax-free only for college education (otherwise you would incur tax and penalty on the earnings). TCJA changed this to permit the use of up to $10,000 per year per student for elementary and secondary education. OBBBA further increases this to $20,000 per year per student.

Sale of farmland – OBBBA creates new IRC 1062 which provides that in the case of a sale of qualified farm land to a qualified farmer the tax on the gain can be paid in installments over 4 years.

Estate tax - Under current law, an individual can leave up to approximately $14 million to his or her heirs tax-free, and a married couple up to approximately $28 million. Amounts above and beyond this (unless left to charity), are subject to an estate tax of up to 40%. The exemption amount was scheduled to decrease to approximately $7 million per spouse effective January 1, 2026, but OBBBA instead increases the exemption to $15 million per spouse effective January 1, 2026.

Quick Notes

- For 2025, the Social Security wage base is $176,100, the maximum wage base for computing retirement plan contributions is $350,000, the maximum benefit amount for a defined benefit plan is $280,000, the maximum amount which may be contributed to a defined contribution plan is $70,000, the maximum permissible elective 401(k) deferral is $23,500 ($31,000 for those age 50 and older and potentially $34,750 for those 60 - 63), and the maximum permissible contribution to an IRA is $7,000 ($8,000 for those age 50 and older). Also, for 2025, the maximum amount which can be contributed to an HSA plan is $4,300 for individual coverage and $8,550 for family coverage. Those over age 55 can contribute an additional $1,000.
- The annual gift tax exclusion is $19,000 for 2025, and the lifetime estate and gift tax exclusion amount is $13,990,000 (per spouse).
- The IRS business mileage rate for 2025 is 70 cents per mile.

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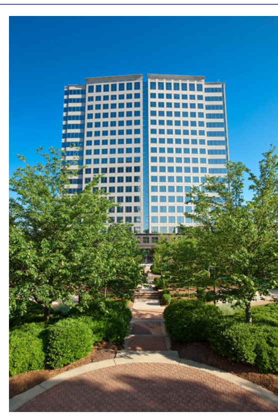

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