

THE ONE BIG BEAUTIFUL BILL ACT & YEAR-END TAX PLANNING - WHAT INDIVIDUALS NEED TO KNOW

KEY INDIVIDUAL INCOME TAX PROVISIONS

- The Tax Cuts and Jobs Act rates were made permanent at 10%, 12%, 22%, 24%, 32%, 35%, and 37%.
 - 0%, 15% and 20% are the rates for capital gain income
- The increased standard deduction was made permanent and will be adjusted for inflation.
- \$31,500 for married filing joint, \$23,625 for head of household, and \$15,750 for married filing separately and single.

TIP DEDUCTION

- \$25,000 of “qualified” tips can be deducted from income on an individual's income tax return. Phaseouts apply based on AGI - \$150,000 / \$400,000 for single taxpayers, \$300,000 / \$550,000 for married filing joint taxpayers (must file jointly if married to claim this deduction).
- The qualified tip deduction is only available for the industries that the Treasury Department deemed eligible in the published Proposed Regs in September. This includes nearly 70 occupations from bartenders to water taxi operators to rickshaw drivers.
 - Qualified tips are monies that are paid voluntarily without consequences for nonpayment, and are not subject to negotiation, and in which the amount is determined by the payer.



OVERTIME DEDUCTION

- Up to \$12,500 of overtime for single taxpayers and \$25,000 of overtime for married filing joint taxpayers can be deducted from income on an individual's income tax return. Phaseouts apply based on AGI - \$150,000 / \$275,000 for single, \$300,000 / \$550,000 for married filing joint (must file jointly if married to claim this deduction).
- This only applies to overtime pay required under the Fair Labor Standards Act. Exempt employees are excluded from taking this deduction.

SENIOR DEDUCTION

- Suspension of the personal and dependent exemptions is now permanent. However, taxpayers aged 65 or over can take a personal exemption of \$6,000 per person. Phaseouts start at \$75,000 for single and \$150,000 for married filing joint (married taxpayers must file jointly to claim this deduction).

DEDUCTION FOR CAR LOAN INTEREST

- Up to \$10,000 of loan interest can be deducted for new vehicles purchased after December 31, 2024 if final assembly took place in the United States. You do not need to itemize to be able to take this deduction, and the phaseout starts at \$100,000 for single and \$200,000 for married filing joint.

INCREASED SALT CAP

- The itemized deduction for state and local taxes is increased from \$5,000 / \$10,000 to \$20,000 (married filing separately) / \$40,000 (married filing joint & single) with annual inflation increases.
- Phaseouts apply with a \$5,000 / \$10,000 floor (\$250,000 / \$300,000 for married filing separately and \$500,000 / \$600,000 for married filing joint and single)

HOME MORTGAGE INTEREST DEDUCTION

- In qualifying for the home mortgage interest deduction, maximum mortgage amounts of deductible mortgage interest is reduced pro rata when the average loan balance exceeds the maximums.
- Suspension of the deduction for interest on a home equity loan is now permanent if the funds were not used to buy, build, or substantially improve the home.





CHARITABLE CONTRIBUTIONS

- Starting in 2026, a 0.5% of adjusted gross income floor will apply to charitable contributions for taxpayers who itemize their deductions. Consider a donor-advised fund this year to lock in full deductibility of your donations.
- Older taxpayers taking required minimum distributions from their IRAs should consider a Qualified Charitable Distribution or “QCD” next year to avoid this floor.

DEDUCTIONS FOR BUSINESS OWNERS

- The 100% bonus depreciation is made permanent for assets placed in service after January 19, 2025, with Section 179 expensing increased to \$2.5M for 2025 and indexed for inflation thereafter.
- The qualified Business Income Deduction under Section 199A is made permanent at 20%. Pass-through Entity elections will remain a SALT cap workaround.

OPPORTUNITY ZONES

- The Qualified Opportunity Zone Program has been extended indefinitely (it originally was set to expire December 31, 2026), creating tax deferral and elimination options for capital gain income.
- There is now a new rolling gain deferral and permanent 10% basis step-up (gains are now deferred and recognized on the fifth anniversary date of the investment).
- Eligibility criteria will be more difficult with a new category for rural areas.
- Starting in 2027, capital gains can be deferred for up to five years if reinvested into an Opportunity Zone (OZ).
 - There is now a basis bump in OZ property of 10% after five years (30% for rural property) and equal to fair market value for years 10 through 30. There are new reporting requirements and stiff penalties if you do not comply.





ESTATE & GIFT TAX - BASIC FUNDAMENTALS

- Estate and gift taxes are imposed on the transfer of property from one person to another at death (estate tax) or during life (gift tax). The estate and gift taxes are referred to as a unified-tax.
- Basic Exclusion Amount (BEA) - the maximum amount of money or property that a person can transfer, either during life (as gifts) or at death (through an estate), without having to pay estate, gift, or generation-skipping transfer (GST) taxes. Any value over and above BEA is taxed at 40%.

ONE BIG BEAUTIFUL BILL ACT (OBBBA) ESTATE & GIFT TAX UPDATES

- “Permanent” increase of the Basic Exclusion Amount to \$15 million per individual.
 - Beginning in 2026, the OBBBA increases the BEA from \$13.99M per person to \$15M per person, to be adjusted for inflation in subsequent years.
 - The permanent increase will eliminate the “clawback” concern.
 - Portability of Deceased Spousal Unused Exclusion (DSUE) remains available.
 - The DSUE will transfer any unused portion of the exclusion to a surviving spouse; however, this does NOT apply to GST (Rev. Proc. 2022-32 provides for a 5-year filing window).

ESTATE & GIFT PLANNING

- Although the increased estate exclusion means fewer individuals are subject to estate tax, it's still essential to have a solid estate plan. Proper planning ensures your wishes are carried out, your beneficiaries are protected, and the administration of your estate remains straightforward and efficient.
- Further, when making gifts or setting up your will, careful consideration should be given to which assets are being transferred during life and at death.
 - During Life - recipient inherits carryover basis from the donor
 - Prioritize assets with a high likelihood of appreciation
 - At Death - recipient's basis is adjusted to FMV at death (“Step-Up Basis”)
 - Consider holding assets with low basis/high unrealized gains until death





ASSET VALUATIONS

- *Thomas A. Connelly et al v. United States, No 23-146* (Decided by SCOTUS on June 4, 2024)
 - This case concerns a closely-held business interest included in an estate, subject to a buy-sell agreement, funded by life insurance owned by the business.
 - SCOTUS ruled that for estate and gift tax purposes, life insurance proceeds (or Cash Surrender Value if gifted during life) must be included in the company's value. A contractual obligation to redeem shares is not a liability that reduces the company's value.
- Discount for Lack of Marketability (DLOM) - this reflects the reduction in value attributable to the fact that the shares/interest do not have a readily available market. The typical range is 20% to 40%.
- Discount for Lack of Control (DLOC) - this reflects the reduction in value attributable to the fact that a minority interest holder cannot unilaterally direct the business, set policies, or otherwise control the company's operations. The typical range for a DLOC is 15% to 35%.

IRS TRENDS

- There was low morale even before the government shutdown. They are currently operating with a skeleton crew with some divisions completely shut down.
- Automated notices are still being sent, causing much taxpayer frustration.
- Larger case loads with a reduced, less-experienced workforce could lead to more compromise to keep things moving once the government reopens.
- The government shutdown could carry into December, at which point the backlog is estimated to be worse than with Covid.



SHIFT TOWARD EFT PAYMENTS

- EO 14247 - Modernizing Payments To and From America's Bank Account (signed March 25, 2025).
 - Effective September 30, 2025, Treasury is to stop issuing and receiving paper checks.
 - Logistically, this will happen over two phases.
- Phase 1 - Tax Refunds
 - Will impact 2025 tax returns
 - Taxpayers requesting a refund will receive a letter if direct deposit information was not provided.
 - If the Taxpayer does not respond, the IRS will resort to mailing a paper refund check after six weeks.
- Phase 2 - Tax Payments
 - The IRS plans to release more guidance before the 2026 filing season opens.
 - This guidance should clarify who must pay electronically, how 2025 balances due will be handled, as well as 2026 estimates.

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