The 2025 One Big Beautiful Bill Act (OBBBA)

Comprehensive Tax Provisions

2025 Individual Marginal Tax Brackets

Rate	Single	Married Filing Jointly	Married Filing Separately	Head of Household
10%	$0 – $11,925	$0 – $23,850	$0 – $11,925	$0 – $17,000
12%	$11,926 – $48,475	$23,851 – $96,950	$11,926 – $48,475	$17,001 – $64,850
22%	$48,476 – $103,350	$96,951 – $206,700	$48,476 – $103,350	$64,851 – $103,350
24%	$103,351 – $197,300	$206,701 – $394,600	$103,351 – $197,300	$103,351 – $197,300
32%	$197,301 – $250,525	$394,601 – $501,050	$197,301 – $250,525	$197,301 – $250,500
35%	$250,526 – $626,350	$501,051 – $751,600	$250,526 – $375,800	$250,501 – $626,350
37%	$626,351+	$751,601+	$375,801+	$626,351+

2026 Individual Marginal Tax Brackets

Rate	Single	Married Filing Jointly	Married Filing Separately	Head of Household
10%	$0 – $12,400	$0 – $24,800	$0 – $12,400	$0 – $17,700
12%	$12,401 – $50,400	$24,801 – $100,800	$12,401 – $50,400	$17,701 – $67,450
22%	$50,401 – $105,700	$100,801 – $211,400	$50,401 – $105,700	$67,451 – $105,700
24%	$105,701 – $201,775	$211,401 – $403,550	$105,701 – $201,775	$105,701 – $201,750
32%	$201,776 – $256,255	$403,551 – $512,450	$201,776 – $256,225	$201,751 – $256,200
35%	$256,256 – $640,600	$512,451 – $768,700	$256,256 – $384,350	$256,201 – $640,600
37%	$640,601+	$768,701+	$384,351+	$640,601+

Increased Standard Deduction

The OBBBA makes the larger standard deduction created under the TCJA permanent. Additionally, the amounts for 2025 are slightly expanded.

- Single or Married Filing Separately — $15,750
- Head of Household — $23,625
- Married Filing Jointly or Qualifying Surviving Spouse — $31,500.
- 65 or Over – Additional $2,000 for single, and $1,600 for each spouse if married.

Inflation-adjusted amounts for 2026 are:

- Single or Married Filing Separately — $16,100
- Head of Household — $24,150
- Married Filing Jointly or Qualifying Surviving Spouse — $32,200.
- 65 or Over – Additional $2,050 for single, and $1,650 for each spouse if married.

The OBBBA also permanently terminated personal exemptions.

Changes to AMT

Key AMT Changes Starting in 2026

Feature	2025 (pre-OBBBA)	2026 (post-OBBBA)
Exemption amounts	$88,100 for single filers. $137,000 for married filing jointly.	$90,100 for single filers. $140,200 for married filing jointly.
Exemption phase-out threshold	For single filers, it begins at AMTI of $626,350. For married filing jointly, it begins at $1,252,700.	For single filers, it drops to AMTI of $500,000. For married filing jointly, it drops to $1,000,000.
Exemption phase-out rate	The exemption is reduced by 25% of the AMTI amount over the threshold.	The exemption is reduced by 50% of the AMTI amount over the threshold.

Excess Business Loss (EBL) Limitations

Change	Details
Permanence	The OBBBA repeals the previous sunset date of 2028, making the EBL limitation permanent for tax years beginning after December 31, 2025.
Threshold Reset	For 2025, the threshold is $313,000 ($626,000 if married filing jointly). Effective for tax years beginning after December 31, 2025, the inflation adjustment baseline for the EBL threshold will reset from 2017 to 2024. This change will impact the limitation amount in 2026 and beyond.
Loss Treatment	The treatment of disallowed losses remains the same: Any excess loss is carried forward as a net operating loss (NOL) to future tax years. When used, the NOL is generally limited to offsetting no more than 80% of taxable income in that future year.
Codification	The act codifies previous IRS guidance, including requirements to aggregate all trade or business income and deductions and apply the limit at the individual level.

Child Tax Credit

Permanent changes to the Child Tax Credit

- Increased credit amount: For the 2025 tax year, the maximum credit is increased from $2,000 to $2,200 per qualifying child.
- Inflation adjustment: The credit will be indexed for inflation each year starting in 2026 to keep pace with rising costs.
- Permanent phase-out thresholds: The income thresholds at which the credit begins to phase out are made permanent at $400,000 for married couples filing jointly and $200,000 for all other filers.
- Permanent credit for other dependents: The $500 credit for other dependents, such as older children or adult relatives, is made permanent.
- Stricter identification rules: Beginning in 2025, the taxpayer, their spouse (if filing jointly), and each qualifying child must have a Social Security Number (SSN) valid for employment to claim the credit.

Child & Dependent Care

Child and Dependent Care Credit: Increases the applicable percentage of care expenses used to calculate the Child and Dependent Care Credit starting in 2026 to:

- Households with AGI under $15,000: 50%
- Households with AGI between $15,000 and $75,000 (single and head-of-household) or $150,000 (joint): Reduced from 50% by 1% for each $2,000 of AGI over $15,000, down to a minimum of 35%
- Households with AGI over $75,000 (single) or $150,000 (joint): Reduced from 35% by 1%, for each $2,000 (single) or $4,000 (joint) over those thresholds, down to a minimum of 20%

Dependent Care Assistance Programs: Increases the amount that employees may exclude from income for certain dependent care costs paid by their employers, from $5,000 to $7,500, starting in 2026.

Moving Expenses

Key changes to the moving expense deduction

- **Permanent suspension**: OBBBA makes the suspension of the federal moving expense deduction permanent for most taxpayers. Prior to the bill's passage, the suspension was set to expire after 2025.
- **Exceptions**: In addition to active-duty military personnel, certain members of the U.S. intelligence community can now deduct qualified moving expenses. The new rules for intelligence personnel apply to tax years beginning after December 31, 2025.
- **Taxable reimbursements**: For taxpayers who do not qualify for the exception, any moving expense reimbursements from an employer are considered taxable wages. Employers must report these amounts on Form W-2, and the payments are subject to federal income, Social Security, and Medicare taxes.
- **Deductible expenses for those who qualify**: Eligible taxpayers (active-duty military and some intelligence personnel) may still deduct reasonable, unreimbursed moving costs.

Education Incentives

- Student Loan Debt Discharged Due To Death Or Disability – Section 70119: Permanently extends TCJA's exclusion from income for student loan debt discharged due to death or disability (but only for students with a valid Social Security number).
- Student Loan Payments Under Employer-Provided Borrower Assistance – Section 70412: Permanently extends TCJA's exclusion from income of up to $5,250 annually for student loan payments made under an employer's borrower assistance program, with annual inflation adjustment beginning in 2027.
- Charitable Contributions Funding K–12 State Scholarships – Section 70411: Creates a tax credit of up to $1,700 for contributions to charitable organizations that fund K–12 scholarships within their state, beginning in 2027.
- 529A ABLE Account Contributions – Section 70115: Permanently extends the 529A ABLE account rules allowing contributions up to the current gift exclusion limit plus the beneficiary's compensation up to the Federal poverty line.
- Saver's Credit for ABLE Account Contributions – Section 70116: Extends the Saver's Credit to ABLE account contributions starting in 2026 and limits the Saver's Credit exclusively to ABLE account contributions starting in 2027. The credit amount increases to $2,100 beginning in 2027, with inflation adjustments thereafter.
- Rollovers From 529 To 529A ABLE Accounts – Section 70117: Permanently extends TCJA's provision allowing tax-free rollovers from 529 plans to 529A ABLE accounts.

HSA Expansion

Key OBBBA changes for HSAs (effective 2026)

- **Marketplace plan eligibility:** Individuals enrolled in Bronze or Catastrophic plans purchased through the ACA marketplace will be eligible to contribute to an HSA.
- **Direct Primary Care (DPC):** DPC arrangements are no longer disqualifying for HSA eligibility if the monthly fees are $150 or less for self-only coverage and $300 or less for family coverage.
- **DPC fees as qualified expenses:** DPC fees that meet the eligibility criteria can be paid for tax-free using HSA funds.
- **Telehealth exception:** The rule that allowed HDHPs to cover telehealth services before the deductible was met will be permanently restored.
- **On-site clinics:** The ability to use on-site medical clinics with limited services will not make you ineligible for an HSA.
- **Gym memberships:** The OBBBA allows for gym memberships and other exercise costs to be treated as qualified medical expenses, up to $500 per year.
- **Catch-up contributions:** Both spouses who are age 55 or older will be permitted to make catch-up contributions to a single HSA.

Adoption Tax Credit

Changes in the OBBBA

- **Partial refundability**: For the 2025 tax year, up to $5,000 of the adoption credit is refundable. This allows families with limited or no tax liability to still receive up to $5,000 back as a refund.
- **Increased credit maximum**: For 2025, the maximum credit amount increased to $17,280 per child, up from $16,810 in 2024.
- **Inflation adjustments**: Starting after 2025, both the maximum credit amount and the $5,000 refundable portion will be indexed to inflation.
- **Special needs adoptions**: For the adoption of a child with special needs, families can still claim the maximum credit ($17,280 for 2025), regardless of actual expenses.
- **Employer assistance exclusion**: The maximum amount of employer-provided adoption assistance that can be excluded from income is also $17,280 for 2025.

Individual Income Tax Itemized Deductions

State and Local Taxes (SALT) Deduction

Key changes to the SALT deduction:

- **Increased cap:** The maximum SALT deduction is raised in 2025 from $10,000 to $40,000. For married individuals filing separately, the cap is now $20,000.
- **Annual increase**: The cap increases by 1% per year through 2029.
- **Temporary change for 2025-2029**: The deduction limit is scheduled to revert to $10,000 in 2030.
- **Itemization required**: Only taxpayers who itemize their deductions, rather than taking the standard deduction, can claim the SALT deduction.

Income-based phaseout: The increased cap begins to phase out for taxpayers with a modified adjusted gross income (MAGI) over certain thresholds.

- **Phaseout income threshold**: The deduction is reduced for taxpayers with a MAGI over $500,000 ($250,000 for married individuals filing separately).
- **Phaseout rate**: The maximum deduction is reduced by 30% of the amount by which income exceeds the threshold.
- **Phaseout minimum:** The deduction cannot be reduced below $10,000, even for taxpayers with very high incomes.
- **Fully phased out**: Taxpayers with a MAGI of $600,000 or more will be limited to the previous $10,000 cap.

Impact on pass-through entities (PTETs): The OBBBA preserves the ability of taxpayers to use state-level pass-through entity tax (PTET) elections, which were created as a workaround for the previous $10,000 SALT deduction cap.

Individual Income Tax Itemized Deductions

Charitable Deductions

All taxpayers (effective 2026)

- **Permanent 60% AGI cash deduction**: The temporary increase from the Tax Cuts and Jobs Act of 2017 (TCJA) that allowed a deduction for cash gifts up to 60% of your Adjusted Gross Income (AGI) is now permanent.

Changes for non-itemizers (effective 2026)

- **New "above-the-line" deduction**: Taxpayers who take the standard deduction will be able to claim a new charitable deduction for cash contributions. The maximum amounts are $1,000 for single filers and $2,000 for married couples filing jointly.
- **Exclusions**: This new deduction cannot be used for contributions to donor-advised funds or private foundations.

Changes for itemizers (effective 2026)

- **0.5% AGI floor**: Itemizers can only deduct charitable contributions that exceed 0.5% of their AGI. Any contributions below this floor are not deductible in the current year, though unused deductions may be carried forward.
- **Example**: For a taxpayer with an AGI of $200,000, the first $1,000 in charitable gifts ($200,000 x 0.5%) are not deductible.

Individual Income Tax Itemized Deductions

Mortgage Deductions

Mortgage interest deduction limit

- The $750,000 limit on eligible mortgage debt is now permanent. The cap, which was put in place by the 2017 Tax Cuts and Jobs Act (TCJA), was originally set to expire after 2025, with the limit returning to $1 million.
- **Married filing separately**: The limit is $375,000 for those filing separately.
- **Grandfathered loans**: The $1 million limit still applies to loans that originated before December 16, 2017. Refinancing an older loan can also be covered under the $1 million limit as long as the new loan does not exceed the principal balance of the old one.

Mortgage insurance premium deduction

- Beginning in the 2026 tax year, the OBBBA permanently restores the deduction for qualified private mortgage insurance (PMI) premiums.
- **Eligibility:** This deduction is available to taxpayers who itemize deductions and have an adjusted gross income (AGI) below $100,000 ($50,000 for married filing separately).
- **Phaseout**: The deduction is phased out for taxpayers with higher incomes and is completely eliminated if your AGI exceeds $110,000 ($55,000 for married filing separately).

Home equity loan interest

- The OBBBA also made permanent the existing rules for home equity loans.
- **Deductible**: Interest on home equity loans is only deductible if the funds are used to buy, build, or substantially improve your primary or secondary residence.
- **Non-deductible**: Interest on home equity loans used for personal expenses, such as paying off credit card debt or a vacation, remains non-deductible.

Individual Income Tax Itemized Deductions

Miscellaneous Itemized Deductions

The TCJA temporarily suspended the following miscellaneous itemized deductions, and the OBBBA made this change permanent for tax years after 2025:

- **Unreimbursed employee expenses**: Including job-related travel, professional dues, and required uniforms.
- **Tax preparation fees**: Costs paid for tax preparation and advice.
- **Investment fees and expenses:** Fees for managing investments, including investment advisory fees, custodial fees, and safe deposit box rentals.
- **Hobby expenses**: Costs incurred from a hobby, though income from the hobby must still be reported.

Some specific categories of taxpayers may still be able to deduct unreimbursed employee expenses:

- **Eligible educators:** The OBBBA adds a new itemized deduction for unreimbursed educator expenses for K-12 teachers, counselors, coaches, and aides.
- Armed Forces reservists.
- Qualified performing artists.
- Fee-basis state or local government officials.
- Individuals with disabilities who have impairment-related work expenses.

Individual Income Tax Itemized Deductions

Casualty and Theft Losses

- Permanently restricts casualty losses to federal and (starting in 2026) state-declared disasters.
- $100 and 10% AGI reductions still apply.
  - "Qualified" disasters apply a $500 floor and no 10% AGI reduction
- Election to deduct in prior year still applies.
- Permanently prohibits deductions for personal theft losses except those involving a disaster or related to a profit-seeking activity.

Individual Income Tax Itemized Deductions

New Tax Rules for Gambling

- **Deduction capped at 90%:** Starting in the 2026 tax year, itemized deductions for gambling losses are limited to 90% of winnings. For example, a gambler with $10,000 in winnings and $10,000 in losses will still have to pay taxes on $1,000 in income ($10,000 in winnings minus the $9,000 maximum loss deduction).
- **Affects all gambling:** This change applies to all forms of legal gambling, including casino games, sports betting, and lotteries.
- **Professional gamblers affected**: Though professional gamblers often treat their activity as a business, this change will still force them to pay taxes on what could be a net loss.
- **Reporting thresholds raised**: The act also raises some tax reporting thresholds, effective in 2026:
  - The general threshold for reporting third-party payments on Form 1099-K is raised to $2,000.
  - There is some confusion regarding whether the reporting threshold for W2-G forms for slot machine jackpots will also increase from $1,200 to $2,000. While the American Gaming Association argues it should, other tax professionals disagree, and the IRS has yet to clarify.

Individual Income Tax Itemized Deductions

High Income Earners

- Permanently repeals the old "Pease" limitation on itemized deduction that was previously paused by TCJA until 2026.
- Under OBBBA, total itemized deductions otherwise allowed will be reduced by 2/37 of the lesser of (a) the amount of the deductions or (b) the taxable income that exceeds the dollar amount at which the 37% rate bracket begins.
- The effect of this provision is to reduce the benefit of itemized deductions to individual taxpayers in the top marginal bracket by 2%. Although this provision applies to most itemized deductions, this rule will most likely impact high-earning taxpayers with respect to their charitable contributions. The result will be that the impact of a charitable contribution will only be at an effective rate of 35%, instead of 37%.

"No Tax on Tips"

- **New deduction**: Effective for 2025 through 2028, employees and self-employed individuals may deduct qualified tips received in occupations that are listed by the IRS as customarily and regularly receiving tips on or before December 31, 2024, and that are reported on a Form W-2, Form 1099, or other specified statement furnished to the individual or reported directly by the individual on Form 4137.
  - "Qualified tips" are voluntary cash or charged tips received from customers or through tip sharing.
  - Maximum annual deduction is $25,000; for self-employed, deduction may not exceed individual's net income (without regard to this deduction) from the trade or business in which the tips were earned.
  - Deduction phases out for taxpayers with modified adjusted gross income over $150,000 ($300,000 for joint filers).
- **Taxpayer eligibility**: Deduction is available for both itemizing and non-itemizing taxpayers.
  - Self-employed individuals in a Specified Service Trade or Business (SSTB) under section 199A are not eligible. Employees whose employer is in an SSTB also are not eligible.
  - Taxpayers must:
    - include their Social Security Number on the return and
    - file jointly if married, to claim the deduction.
- **Reporting**: Employers and other payors must file information returns with the IRS (or SSA) and furnish statements to taxpayers showing certain cash tips received and the occupation of the tip recipient.
- **Guidance:** IRS list of eligible occupations: https://www.federalregister.gov/documents/2025/09/22/2025-18278/occupations-that-customarily-and-regularly-received-tips-definition-of-qualified-tips

“No Tax on Overtime”

- **New deduction**: Effective for 2025 through 2028, individuals who receive qualified overtime compensation may deduct the pay that exceeds their regular rate of pay – such as the “half” portion of “time-and-a-half” compensation -- that is required by the Fair Labor Standards Act (FLSA) and that is reported on a Form W-2, Form 1099, or other specified statement furnished to the individual.
  - Maximum annual deduction is $12,500 ($25,000 for joint filers).
  - Deduction phases out for taxpayers with modified adjusted gross income over $150,000 ($300,000 for joint filers).
  - Doesn’t apply to FICA and Medicare taxes.
- **Taxpayer eligibility**: Deduction is available for both itemizing and non-itemizing taxpayers.
  - Taxpayers must:
    - include their Social Security Number on the return and
    - file jointly if married, to claim the deduction.
- **Reporting**: Employers and other payors are required to file information returns with the IRS (or SSA) and furnish statements to taxpayers showing the total amount of qualified overtime compensation paid during the year.
- **Guidance**: The IRS will provide transition relief for tax year 2025 for taxpayers claiming the deduction and for employers and other payors subject to the new reporting requirements.

“No Tax on Car Loan Interest”

- **New deduction**: Effective for 2025 through 2028, individuals may deduct interest paid on a loan used to purchase a qualified vehicle, provided the vehicle is purchased for personal use and meets other eligibility criteria. (Lease payments do not qualify.)
  - Maximum annual deduction is $10,000.
  - Deduction phases out for taxpayers with modified adjusted gross income over $100,000 ($200,000 for joint filers).
- **Qualified interest**: To qualify for the deduction, the interest must be paid on a loan that is:
  - originated after December 31, 2024,
  - used to purchase a vehicle, the original use of which starts with the taxpayer (used vehicles do not qualify),
  - for a personal use vehicle (not for business or commercial use) and
  - secured by a lien on the vehicle.
- If a qualifying vehicle loan is later refinanced, interest paid on the refinanced amount is generally eligible for the deduction.
- **Qualified vehicle**: A qualified vehicle is a car, minivan, van, SUV, pick-up truck or motorcycle, with a gross vehicle weight rating of less than 14,000 pounds, and that has undergone final assembly in the United States.
- **Taxpayer eligibility**: Deduction is available for both itemizing and non-itemizing taxpayers.
  - The taxpayer must include the Vehicle Identification Number (VIN) of the qualified vehicle on the tax return for any year in which the deduction is claimed.
- **Reporting**: Lenders or other recipients of qualified interest must file information returns with the IRS and furnish statements to taxpayers showing the total amount of interest received during the taxable year.
- **Guidance**: The IRS will provide transition relief for tax year 2025 for interest recipients subject to the new reporting requirements.

"No Tax on Social Security"

- **New deduction:** Effective for 2025 through 2028, individuals who are age 65 and older may claim an additional deduction of $6,000. This new deduction is on top of the current additional standard deduction for seniors under existing law ($2,000 in 2025 for single filers and $1,600 per person if married).
  - The $6,000 senior deduction is per eligible individual (i.e., $12,000 total for a married couple where both spouses qualify).
  - Deduction phases out for taxpayers with modified adjusted gross income over $75,000 ($150,000 for married filing jointly).
- **Qualifying taxpayers:** To qualify for the additional deduction, a taxpayer must attain age 65 on or before the last day of the taxable year.
- **Taxpayer eligibility:** Deduction is available for both itemizing and non-itemizing taxpayers.
  - Taxpayers must:
    - include the Social Security Number of the qualifying individual(s) on the return, and
    - file jointly if married, to claim the deduction.

“Trump Savings Accounts”

Key Features & Eligibility

- Available for U.S. citizens under age 18 with a valid Social Security number.
- For children born between January 1, 2025, and December 31, 2028, the federal government will seed the account with **$1,000** (pilot program).
- If the parents (or guardians) do not open an account, Treasury is required to open one on the child’s behalf.
- In the year of turning 18, the account transitions to treatment as if a traditional IRA.

Contribution Rules

- Annual after-tax contributions up to **$5,000** per child (indexed for inflation after 2027).
- Employers may contribute up to **$2,500** per year (not includible in the employee’s gross income). This counts toward the annual $5,000 limit.
- The $1,000 seed grant and certain qualified government or charitable contributions do **not** count toward the annual $5,000 limit.
- Contributions may begin no earlier than July 4, 2026.

Investment & Custodial Rules

- While the child is a minor, the account operates as a **custodial trust**, with the parent/guardian managing it until the child attains age 18.
- Investments are restricted to diversified U.S. equity index funds or ETFs (e.g. S&P 500 or broad-market U.S. stock indexes). No leverage, no sector-specific indexes.
- Annual investment fees/expense ratios must be capped at **0.1%** of the account balance.

Distributions & Tax Treatment

- No distributions are allowed before the beneficiary turns 18 (with limited exceptions for excess contributions or rollovers).
- Upon reaching age 18, the account transitions to an IRA-type framework.
- Distributions above the basis (i.e. earnings) are taxed as ordinary income to the beneficiary.
- Early withdrawals before age 59½ may incur a **10% penalty** on taxable portion (unless used for qualified purposes).

Estate and Gift Taxes

Key Revisions to Estate and Gift Taxes

- **Permanent, increased exemptions**: For 2026, the federal estate, gift, and generation-skipping transfer (GST) tax exemptions are permanently increased to $15 million per individual, or $30 million for a married couple. These amounts will be adjusted for inflation annually beginning in 2027.
- **Prevented exemption sunset**: The OBBBA ended the uncertainty surrounding the TCJA provisions, which were set to expire at the end of 2025. If no new legislation had been passed, the exemptions would have been cut roughly in half.
- **Continuation of portability**: Surviving spouses can continue to use any unused portion of their deceased spouse's estate and gift tax exemption, a feature known as "portability".
- **Higher annual gift tax exclusion**: The IRS has announced that the annual gift tax exclusion will increase to $19,000 per recipient for the 2025 tax year.
- **State Estate Taxes Remain**: OBBBA does not affect state-level estate or inheritance taxes. Several states set thresholds far below the federal level, so state exposure remains a concern.

Business & Investment Incentives

Cost Recovery

Bonus depreciation changes

- The OBBBA reverses the prior phase-down of bonus depreciation and restores it to 100% permanently.
  - **Prior law**: The Tax Cuts and Jobs Act (TCJA) of 2017 introduced a phase-down of bonus depreciation, which fell from 100% in 2022 to 60% in 2024. For property placed in service between January 1 and January 19, 2025, the rate was 40%.
  - **New law**: Effective for property acquired and placed in service after January 19, 2025, the bonus depreciation rate is permanently set at 100%.
- **New qualified production property (QPP):** The OBBBA also created a new temporary 100% deduction for QPP, a category that includes certain real property used for manufacturing and production.
- **Expanded Section 179 limit**: The maximum amount a business can expense has been more than doubled from $1.22 million to $2.5 million for 2025.
- **Expanded Section 179 phase-out threshold**: The threshold for the phase-out of the deduction has been increased from $3.05 million to $4 million. The deduction is reduced dollar-for-dollar for property purchases that exceed this amount.

Business & Investment Incentives

Section 174 Research and Development

Treatment of R&E expenses starting in 2025

For tax years beginning after December 31, 2024, immediate deduction of domestic R&E expenditures, including certain software development costs, is restored. Taxpayers can also choose to capitalize and amortize these costs over 60 months or use a 10-year amortization option. The TCJA requirement to amortize foreign R&E costs over 15 years remains.

Relief for past R&E expenses (2022–2024)

For the years 2022 through 2024, unamortized domestic R&E costs can be deducted entirely in 2025 or spread over 2025 and 2026. Small businesses with average annual gross receipts of $31 million or less can elect retroactive full expensing for this period by filing amended returns by July 3, 2026.

Coordination with the R&D tax credit

Starting with the 2025 tax year, taxpayers claiming the Section 41 research credit must either reduce their domestic R&E deduction by the credit amount or elect a reduced credit. Small businesses choosing retroactive expensing for 2022–2024 must also apply these coordination rules to those years.

Implementation and procedural guidance

Adopting these new rules for tax years beginning after December 31, 2024, is considered an automatic change in accounting method. The IRS issued Revenue Procedure 2025-28 on August 28, 2025, detailing the procedures and elections available to taxpayers.

Business & Investment Incentives

Section 163(j) Business Interest Expense

- **EBITDA Calculation Restored**: For tax years beginning after December 31, 2024, the One Big Beautiful Bill Act (OBBBA) permanently restores the add-back of Depreciation, Amortization, and Depletion (DAD) to calculate ATI. This is a return to the EBITDA-based calculation used before 2022, allowing businesses, especially those in capital-intensive industries, to deduct more business interest.
- **Increased Small Business Threshold**: The threshold for the small business exception to the Section 163(j) interest limitation is increased to $31 million for 2025.
- **Limitations on Interest Capitalization**: Beginning with tax years after December 31, 2025, the OBBBA will subject certain business interest that is electively capitalized to other assets to the Section 163(j) limitation. This closes a planning loophole that allowed businesses to effectively delay the interest deduction.
- **Exclusion of Foreign-Source Income**: For tax years beginning after December 31, 2025, the ATI calculation will exclude income from Subpart F and Global Intangible Low-Taxed Income (GILTI) inclusions and Section 78 gross-up.

Business & Investment Incentives

Qualified Business Income (QBI) §199A Deduction

- The 20% QBI deduction, originally set to expire after 2025 under TCJA, was made permanent by the OBBBA.
- Expanded income thresholds: The bill increased the taxable income limits at which the deduction begins to phase out or become limited. The range was increased from $100,000 to $150,000 for married couples, and the range was increased from $50,000 to $75,000 for all other filers.
- Starting in 2026, a taxpayer who has a minimum of $1,000 in total QBI from an active qualified trade or business may claim a minimum QBI deduction of $400. The $1,000 and $400 amounts will be adjusted for inflation after 2026.
- The OBBBA includes income from Business Development Corporations (BDCs) as eligible for the QBI deduction.

Business & Investment Incentives

Qualified Small Business Stock (QSBS)

- Tiered Holding Periods
  - Prior Law: A full five-year holding period was required for a 100% exclusion of gains.
  - OBBBA Changes for stock issued after July 4, 2025:
    - 3 Years: 50% gain exclusion.
    - 4 Years: 75% gain exclusion.
    - 5 Years: 100% gain exclusion (unchanged).
- Increased Gain Exclusion Cap
  - Prior Law: The exclusion was the greater of $10 million or 10 times the adjusted basis of the stock.
  - OBBBA Changes: The $10 million component of the cap is raised to $15 million, with this new $15 million cap becoming adjustable for inflation beginning in 2027.
- Higher Gross Asset Limit
  - Prior Law: A company's aggregate gross assets could not exceed $50 million at any time before and immediately after the stock issuance.
  - OBBBA Changes: This limit is increased to $75 million, also adjusted for inflation annually beginning in 2027.

Business & Investment Incentives

Qualified Opportunity Zone (QOZ) Funds

Key Program Changes

- Program Permanence: The QOZ program is no longer set to expire and will remain open indefinitely.
- Rolling 10-Year Designations: Census tracts are now designated as QOZs for 10-year periods, with the first cycle starting in 2027 and subsequent cycles occurring every 10 years thereafter.
- Tighter Low-Income Community Criteria: A census tract must meet stricter income criteria to be designated as a low-income community (eligible for QOZ designation), with the median family income now needing to be at or below 70% of the applicable median.

New Investment Benefits

- Rolling 5-Year Gain Deferral: For investments made after December 31, 2026, capital gains invested in a QOF can be deferred until the fifth anniversary of the investment date.
- Permanent 10% Basis Step-Up: Investments held for at least five years are eligible for a permanent 10% basis step-up, which increases the basis of the deferred gain, reducing the amount of gain that is taxed.

Business & Investment Incentives

Qualified Opportunity Zone (QOZ) Funds

New Rural Opportunity Fund Benefits

- Qualified Rural Opportunity Funds (QROFs): A new fund category is created for investments in 'rural' QOZs (within cities or towns with a population less than 50,000)
- 30% Basis Step-Up: Investments held for at least five years in a QROF receive a 30% basis step-up, compared to the standard 10% for regular QOFs.
- Reduced Substantial Improvement Requirement: For tangible property in a rural QOZ, the required improvement cost to be considered "substantially improved" is reduced to 50% of the property's adjusted basis, from 100% for non-rural areas.

Reporting and Oversight

- Increased Reporting Requirements: QOFs must now adhere to new, detailed reporting requirements to provide more visibility into the program's activities.
- Penalties for Non-Compliance: The OBBBA includes new penalties, such as significant fines, for QOFs that fail to meet the new reporting standards.
- Enhanced Public Transparency: The Treasury Department is tasked with producing public reports to assess the program's effectiveness and its impact on local communities, including metrics like job creation and housing outcomes.

Other Business Provisions

- Gains On Qualified Farmland Sale: Allows gain from sale of qualified farmland to be spread over four annual installments if it is sold to a "qualified farmer" (i.e., not a developer) after July 4, 2025.
- Interest Income Exclusion: A new interest exclusion on qualified rural and agricultural real estate loans is effective for loans made after July 4, 2025. For eligible financial institutions, this provision allows them to exclude 25% of the interest income from their taxable income.
- Overseas Remittances: Beginning January 1, 2026, the OBBBA imposes a 1% tax on all remittances of physical instruments sent overseas, affecting U.S. taxpayers (businesses and individuals) who send funds overseas by way of cash, money orders, cashiers checks, or other non-bank account transfers.

Other Business Provisions

- Business Meals: Eliminates the tax deduction for most employer-provided meals furnished for the "convenience of the employer," effective January 1, 2026, as well as the deduction for snacks, coffee, and other minor refreshments that were previously deductible as a "de minimis" fringe benefit.
  - Exception For Fishing Operations: A new exception to the 50% limitation on business meal deductions for meals provided on fishing vessels or at fish processing facilities located north of 50 degrees latitude and not in a metropolitan statistical area (i.e., Alaska).
- Charitable Contributions: For corporations, the OBBBA introduces a new 1% floor for charitable deductions, effective for tax years beginning after December 31, 2025. This means corporations can only deduct charitable contributions that exceed 1% of their taxable income. The existing 10% limit on deductible contributions remains in effect.
  - Carryforward of 5 years still applies. Donations under 1% can only utilized under certain conditions.

Energy & Climate Rollbacks

Wind and Solar Tax Credits

- Accelerated Termination: Wind and solar projects generally lose eligibility for the Clean Electricity Investment Credit (“ITC” Section 48E) and Clean Electricity Production Tax Credit (“PTC” Section 45Y) after December 31, 2027.
- Construction Start Date Exception: Projects that begin construction on or before July 4, 2026 (12 months after OBBBA enactment) can retain credit eligibility even if placed in service after the 2027 deadline.
- New Construction Rules: The IRS issued strict guidance that limits the prior "safe harbor" for commencing construction, essentially requiring substantial physical work to begin.
- Elimination of 5% Safe Harbor: For most projects starting construction after September 2, 2025, the former ability to qualify for credits by paying just 5% of costs upfront is gone, forcing more projects to start physical construction.
- FEOC Restrictions: The OBBBA implemented restrictions on projects involving Foreign Entities of Concern (FEOCs), which are entities associated with certain adversarial nations like China, Russia, North Korea, or Iran.

Energy & Climate Rollbacks

Electric Vehicle and Building Energy Tax Credits

Credit Name	IRC Section	Policy Change(s)
Previously Owned Electric Vehicle Credit	25E	Repealed after September 30, 2025
Electric Vehicle Credit	30D	Repealed after September 30, 2025
Commercial Electric Vehicle Credit	45W	Repealed after September 30, 2025
Refueling Property Credit	30C	Repealed after June 30, 2026
New Energy Efficient Home Credit	45L	Repealed after June 30, 2026
Energy Efficient Home Improvement Credit	25C	Repealed after December 31, 2025
Residential Clean Energy Credit	25D	Repealed after December 31, 2025
Energy Efficient Commercial Buildings Deduction	179D	Repealed after June 30, 2026

Energy & Climate Rollbacks

Additional Provisions

Clean fuel producer credit: Extends the Section 45Z clean fuel producer credit through Dec. 31, 2029, with modifications, including:

- Prohibits feedstocks other than those produced in the U.S, Canada or Mexico.
- Prohibits negative emissions rates, except in the case of transportation fuel derived from animal manure.
- Removes indirect land use change penalties for emissions.
- Reduces the credit rate for sustainable aviation fuel and extends the SAF excise tax blender's credit through Sept. 30, 2025 (with coordinating Section 45Z rules).
- Extends and increases the amount of the small producer biodiesel credit through 2026.
- Directs the U.S. Department of the Treasury to issue regulations on areas needing clarification, including sales to related persons and preventing "double credits".

Energy & Climate Rollbacks

Additional Provisions

- Clean hydrogen producer credit: Phases out the Section 45V clean hydrogen production credit by requiring construction on facility to commence before Jan. 1, 2028.
- Carbon oxide and sequestration credit: Provides parity in credit rates ($17 per metric ton base credit; $85 per metric ton if labor requirements met) for all carbon capture processes including sequestration, utilization, enhanced oil recovery operations, and direct air capture for facilities and equipment placed in service after the date of enactment.
- Energy generation and storage credits: Permits credits for nuclear, geothermal and energy storage and provides an increased credit for certain advanced nuclear facilities in communities with a threshold amount of employment at such facilities.

Compliance & Reporting

1099-K reporting threshold

- For 2025 and beyond, the OBBBA reverts the reporting threshold for third-party payment networks (like PayPal, Venmo, and Cash App) to the original level of more than $20,000 in gross payments and more than 200 transactions.

Form W-2 changes for tips and overtime

- For tax year 2025, employees can deduct qualified tips and overtime compensation, but the W-2 form itself remains unchanged. The IRS will provide guidance and transition relief for reporting these deductions.
- For tax year 2026, the IRS will release an updated Form W-2 with new boxes and codes for reporting qualified tips and overtime pay.

1099-NEC and 1099-MISC reporting

- For 2026 and subsequent tax years, the reporting threshold for Forms 1099-NEC (nonemployee compensation) and 1099-MISC (miscellaneous income) increases from $600 to $2,000. The new threshold will be indexed for inflation.
- For the 2025 tax year, the $600 threshold remains in place.

Practice & Procedure

- **Employee Retention Tax Credit (ERTC) Penalties**: Imposes a $1000 fine per occurrence for ERTC promoters who fail to comply with due diligence requirements imposed under Section 6695(g). Also extends the statute of limitations on ERTC refund claims to six years after the later of the return filing date or credit claim date.
- **Funding For IRS Direct File Alternatives**: Directs funding to find alternatives to IRS Direct File (which allows many taxpayers to file their taxes for free directly through the IRS website), reflecting the Trump administration's aim to eliminate the free Direct File program that was introduced for the 2024 tax filing season.

Electronic payments:

- Effective September 30, 2025, the IRS began phasing out paper tax refund checks for individual taxpayers, encouraging taxpayers to provide direct deposit information.
- The IRS continue to accept payment by check, though it is expected to issue more guidance.

Fiscal & Administrative Impact

- CBO/CRFB: Deficit impact of $3.4 trillion through 2034.
  – Debt to GDP ratio of 124% by 2034 (118% without the bill)
- Distributional concerns: benefits skew to higher earners, exacerbating the wealth gap
- Administration: IRS employee reductions will impact and delay implementation

Conclusion

- Lock-in of TCJA framework.
- Targeted benefits for service workers, families, and seniors.
- New deductions and accounts expand planning opportunities.
- Deficit impact raises significant fiscal questions.