



Blystone & Bailey

Certified Public Accountants

(989) 772 - 4673

Mt. Pleasant, MI | Midland, MI
Gaylord, MI | Canadian Lakes, MI

www.blystonebailey.com

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Trump Administration signs new tax legislation into law - One Big Beautiful Bill: What you need to know

On July 4, 2025, a significant new tax legislation (the Act) signed into law (informally known as One Big Beautiful Bill or OBBB). The Act is comprehensive and includes key changes to both business and individual related provisions and incentives. Navigating these changes will be complex, but understanding them is essential for effective tax planning and optimizing your position.

Provided in this newsletter, is a comprehensive list which highlights some of the major provisions impacting businesses and individuals. We recommend reviewing the information to ensure you are well-prepared both to leverage new opportunities and to address any challenges coming in the wake of the changes made under the Act. If you have any questions, please contact our office and speak with your CPA.

Business Tax

- **Qualified Business Income (QBI) deduction:** The Act makes this deduction permanent. It also sets a minimum deduction for active QBI for "applicable taxpayers" at \$400; defines an applicable taxpayer as one whose aggregate QBI for all active qualified trades or businesses for the tax year is at least \$1,000; and establishes inflation adjustments for the new minimums starting in post-2026 tax years. Also, the phase-in amounts are increased from \$50,000 to \$75,000 for single filers and from \$100,000 to \$150,000 for joint filers.
- **Bonus depreciation:** The Act makes additional first-year (bonus) depreciation for certain qualified property permanent at 100% (under prior law, it was to phase out to zero). This provision is effective for property acquired after Jan. 19, 2025. There is also a new 100% bonus depreciation provision for "qualified production property" (QPP, which is certain non-residential real property used in the manufacturing, production or refining of certain tangible personal property). This QPP provision is effective for property placed in service after July 4, 2025.
- **179 Expensing limits:** For property placed in service after 2024, the Code Sec. 179 expensing limits are increased to \$2,500,000 and the phasedown threshold is increased to \$4,000,000 (both subject to inflation adjustments).
- **Business interest:** For post-2025 tax years, the Act modifies the definition of adjusted taxable income for purposes of the Code Sec. 163(j) limitation on business interest.
- **Excess business losses:** The Act makes the Code Sec. 461(l) limit on excess business losses permanent.

- **Exclusion of gain on the sale or exchange of qualified small business stock (QSBS):** The Act provides that gain on the "applicable percentage" (50% for stock held for 3 years, 75% for stock held for 4 years, 100% for stock held for 5 years) is eliminated for QSBS acquired after July 4, 2025. Also, the gain exclusion threshold is increased from \$10 million to \$15 million and the \$50 million aggregate gross asset limit is increased to \$75 million (subject to inflation adjustments).
- **Enhanced manufacturing investment credit:** The advanced manufacturing investment credit (also known as the semiconductor credit or the CHIPS credit) on qualified investments in an advanced manufacturing facility built before Jan. 1, 2027 is increased to 35% (up from 25%) for property placed in service after 2025.
- **Information reporting, Form 1099-K:** The Act retroactively reverts the Form 1099-K reporting threshold back to the pre-ARPA \$20,000 and 200 transactions threshold.
- **Information reporting, Forms 1099-NEC, 1099-MISC:** For payments made after 2025, the reporting thresholds for Forms 1099-NEC and 1099-MISC are increased from \$600 to \$2,000 (adjusted for inflation after 2026).
- **Gain on the sale of certain farmland property:** For sales or exchanges occurring after July 4, 2025, sellers of qualified farmland property may elect to pay capital gains tax on the sale in four equal annual installments. The first payment is due with the return for the year in which the sale occurs, with the remaining payments being due with the successive years' returns (but if a payment is missed, the balance is due immediately).
- **Corporate charitable contributions:** The Act imposes a new 1% floor (in addition to the 10% ceiling) on corporate charitable deductions for post-2025 tax years.
- **Repeal of capitalization and amortization of R&D expenses:** The Act repeals the requirement to capitalize and amortize domestic R&D costs for most businesses. Under the Act, immediate expensing is restored for domestic R&D expenditures incurred after December 31, 2024, reversing the five-year amortization rule established by the Tax Cuts and Jobs Act of 2017 (TCJA). Businesses still retain the option to capitalize and amortize domestic R&D expenses over a period of at least 60 months. Small businesses [those with average annual gross receipts of \$31 million or less] are eligible for retroactive relief, allowing them to apply immediate expensing to domestic R&D costs incurred after December 31, 2021. For larger businesses that capitalized R&D costs between 2022 and 2024, the OBBB permits them to deduct the remaining amortized amounts over one or two years starting in 2025, accelerating cost recovery. However, the legislation makes no changes to the treatment of foreign R&D expenses, which must still be amortized over 15 years. The Act also allows companies to choose between claiming a gross or net credit.

Payroll

- **No tax on tips:** Section 70201 of the Act creates a new, temporary deduction for individuals who receive qualified cash tips in occupations where tipping was customary before January 1, 2025. The deduction is up to \$25,000 per year per taxpayer. The deduction phases out by \$100 for every \$1,000 of modified adjusted gross income (MAGI) above \$150,000 (or \$300,000 for joint filers). Tips must be properly reported on IRS-approved forms. Tips must be voluntary, not negotiated, and not received in specified service trades or businesses (as defined in Code Sec. 199A(d)(2)). For individuals receiving tips through a business they operate (other than as employees), the deduction is allowed only if gross income from the business (including tips) exceeds business-related deductions. Married taxpayers must file jointly to claim the deduction. The deduction is available to non-itemizers, meaning it can be claimed in addition to the standard deduction. The new tip deduction and related provisions apply to taxable years beginning after December 31, 2024. The deduction is temporary and will expire for taxable years beginning after December 31, 2028.
- **No tax on overtime:** The Act creates a new, temporary deduction for individuals who receive "qualified overtime compensation." Taxpayers may deduct up to \$12,500 per year in qualified overtime compensation (\$25,000 for joint filers). The deduction phases out by \$100 for every \$1,000 of modified adjusted gross income (MAGI) above \$150,000 (single filers) or \$300,000 (joint filers). "Qualified overtime compensation" is defined as overtime pay required under section 7 of the FLSA that is in excess of the regular rate. The deduction does not apply to any amounts already deducted as qualified tips. Overtime must be properly reported on IRS forms such as W-2s (for employees) or 1099s (for non-employees). The deduction is only available for overtime compensation, not for regular wages or other forms of compensation. The deduction is available to non-itemizers, meaning it can be claimed in addition to the standard deduction. Employers must report the total amount of qualified overtime compensation on employees' W-2 forms. Businesses must also report this information for non-employees on applicable 1099 forms. For overtime compensation earned before January 1, 2026, reporting entities may use reasonable methods to estimate and report qualifying amounts during the transition period. The new overtime deduction and related provisions apply to taxable years beginning after December 31, 2024. The deduction is temporary and will expire for taxable years beginning after December 31, 2028.

Individual Tax

- **Reduced Income Tax Rates:** The Act makes the lower individual income tax rates and wider tax brackets introduced by the Tax Cuts and Jobs Act "TCJA" permanent, preventing a scheduled tax rate increase after 2025. For example, the top individual rate will remain at 37% (instead of reverting to 39.6%), and the marriage penalty relief for most brackets continues. This means that married couples filing jointly will typically not face higher taxes compared to filing as singles.
- **Increased Standard Deduction:** The standard deduction has been permanently increased and enhanced for 2025 and beyond: \$30,000 for joint filers, \$22,500 for heads of household, and \$15,000 for singles in 2025, with further increases to \$31,500, \$23,625, and \$15,750, respectively, for 2026 and after.

- **Increased Standard Deduction (continued):** Because these higher amounts mean fewer taxpayers will benefit from itemizing, consider bunching itemized deductions into a single year to exceed the standard deduction, then take the standard deduction in alternate years.
- **Individual SALT Limitation:** The Act retroactively increases the individual SALT deduction cap from \$10,000 to \$40,000 for 2025. It further increases the cap to \$40,400 in 2026, and by an additional 1% in 2027, 2028, and 2029. The Act phases out the deduction for taxpayers with modified adjusted gross income (MAGI) greater than \$500,000 in 2025. The phaseout threshold increases to \$505,000 in 2026, and by an additional 1% after. For higher-income taxpayers, in tax years before January 1, 2030, the cap is reduced by 30% of the excess of the taxpayer's MAGI over the threshold amount. The Act provides, however, that the deduction will not be reduced below \$10,000. Under the Act, the individual SALT deduction cap will revert to \$10,000 beginning in 2030. The provision is effective for tax years beginning after December 31, 2024.
- **Child Tax Credit:** The Child Tax Credit (CTC) has been permanently increased to \$2,200 per qualifying child for tax years after 2024, and will be indexed for inflation in future years. Omission of a correct SSN on a return under the Code Sec. 24 child and other dependent credit rules will be treated as a mathematical or clerical error that IRS can summarily assess. To maximize these credits, ensure all dependents have the required identification numbers before year-end, and consider managing your income or accelerating deductions if your AGI is near the phase-out range.
- **E&G-Basic Exclusion Amount:** The basic exclusion amount for federal estate and gift tax will increase to \$15 million (indexed for inflation) for estates of decedents dying and gifts made after Dec. 31, 2025. Review and update estate plans and consider making large lifetime gifts to tax advantage of this higher exclusion.
- **Pease Limitation:** Starting in 2026, the Pease limitation which reduced itemized deductions for high earners is permanently repealed. High-income taxpayers will see a much smaller 2/37 reduction apply to the lesser of their itemized deductions or the amount by which their taxable income exceeds the 37% tax bracket threshold. With this change, bunching deductible expenses into a single year can be effective, since the reduction is generally less severe than under the old Pease rules.
- **Individual Alternative Minimum Tax Exemption Amounts:** The AMT exemption amounts are permanently increased for 2026 and beyond, but the phaseout rate for higher-income taxpayers doubles from 25% to 50%. Taxpayers should review their AMT exposure and consider strategies such as timing income or exercising options in lower-income years to avoid unexpected AMT liability.
- **Deduction for Taxpayers Age 65 or Older:** For tax years 2025–2028, individuals age 65 or older (and their spouses, if filing jointly) can claim a new \$6,000 deduction per qualified person. To maximize this benefit, seniors should aim to keep their adjusted gross income (AGI) below \$75,000 (single) or \$150,000 (joint), as the deduction is reduced by 6% of any excess. Be sure to include the correct Social Security Number for each qualifying individual to avoid disallowance of the deduction.

- **Car Loan Interest:** For tax years 2025–2028, individuals can deduct up to \$10,000 per year in interest paid on loans for new personal-use vehicles even if they don't itemize deductions. The deduction phases out for single filers with MAGI over \$100,000 and joint filers over \$200,000. To qualify, the loan must be for a new, U.S.-assembled car, SUV, van, pickup, or motorcycle (under 14,000 pounds), secured by a first lien, with the taxpayer as the original owner, and the vehicle's VIN reported on the tax return. If you're planning to buy a new vehicle, consider timing your purchase and loan to maximize deductible interest within the eligible years, and manage your income to stay below the phase-out thresholds for the largest benefit.
- **Disaster-Related Personal Casualty Losses:** If you suffered a loss due to a federally declared disaster, you can now claim a personal casualty loss deduction even if you don't itemize. The standard deduction is increased by the amount of the net disaster loss. Be sure to document your losses and insurance claims, and consider filing an amended return if you missed claiming a qualified loss in a prior year.
- **Child and Dependent Care Credit:** Starting in 2026, the Child and Dependent Care Credit will be more valuable for many families. The maximum credit rate increases to 50% of eligible expenses, up to \$3,000 for one qualifying individual or \$6,000 for two or more. The full 50% rate applies to families with AGI up to \$15,000 and gradually phases down to 35% for AGI up to \$75,000 (\$150,000 for joint filers). To maximize your benefit, be sure to keep thorough records of all qualifying expenses and coordinate with any employer-provided dependent care benefits to avoid missing out on the full credit potential.
- **Contributions to Scholarship-Granting Organizations:** New for tax years ending after Dec. 31, 2026, individual taxpayers can claim a federal income tax credit of up to \$1,700 per year for cash contributions to qualifying scholarship-granting organizations (SGOs) in participating states. To maximize this benefit, confirm your state's participation and ensure the SGO is on the IRS-approved list before contributing.
- **American Opportunity and Lifetime Learning Credits:** Starting in 2026, you must include the Social Security Number (SSN) of the student (or yourself or your spouse, if applicable) and the Employer Identification Number (EIN) of each college or university when claiming the American Opportunity Tax Credit (AOTC). To avoid losing this valuable credit due to a clerical error, make sure all SSNs are issued before the tax return deadline and that you have the EIN for each institution. Doublecheck that these numbers are entered correctly on your return, as missing or incorrect information will result in the IRS denying the credit.
- **Higher Education Expenses for 529 Accounts:** 529 plan distributions can now be used tax-free for a wider range of education expenses, including not only college costs but also "qualified postsecondary credentialing expenses." This means you can use 529 funds for tuition, fees, books, supplies, and equipment required for enrollment in recognized certificate, licensing, or apprenticeship programs even if they are not traditional degree programs.

- **Eligibility to Enroll in Qualified Health Plan:** Starting in tax years after 2027, you can only claim the premium tax credit (PTC) for months when the health insurance Exchange has verified that you are eligible to enroll in a qualified health plan (QHP) and to receive advance PTC payments. To avoid losing your credit, be sure to file your federal tax return on time each year. Promptly report any changes in income, family size, or other circumstances to the Marketplace within 30 days, and respond quickly to any requests for information.
- **Deduction for Qualified Residence Interest:** The deduction for mortgage interest on home acquisition debt is now permanently capped at \$750,000 (\$375,000 if married filing separately), rather than increasing to \$1 million in 2026 as previously scheduled. If you are considering buying a home, refinancing, or taking out a new mortgage, be aware that interest on debt above \$750,000 will not be deductible.
- **Miscellaneous Itemized Deductions:** The Act permanently eliminates miscellaneous itemized deductions for individual taxpayers. This doesn't apply however to itemized deductions under Code Sec. 67(b). And the Act adds a new deduction thereunder for educators, allowing K-12 teachers, counselors, coaches, and aides working at least 900 hours per year to deduct unreimbursed classroom expenses (like books, supplies, and equipment) starting in 2026.
- **New Tax-Deferred Investment Accounts for Children:** Taxpayers can open a new tax-deferred investment account for children, called a "Trump account" for each eligible child. Taxpayers can contribute up to \$5,000 per year in after-tax dollars for each child, and funds must be invested in a diversified U.S. equity index fund. For children born between Jan. 1, 2025, and Dec. 31, 2028, the federal government will automatically contribute \$1,000 to each account. Taxpayers should open the account before their child turns 18 to maximize contributions and secure the government benefit if eligible.
- **Adoption Credit:** Starting in 2025, the adoption credit is enhanced to include a refundable portion of up to \$5,000 per child (indexed for inflation). This means eligible taxpayers can receive up to \$5,000 as a refund even if they owe no tax, making the credit more valuable for lower-income families. To maximize this benefit, keep detailed records of all qualified adoption expenses, ensure you have a taxpayer identification number for the child, and file Form 8839 in the year the adoption is finalized.
- **Qualified Higher Education Expenses:** Changes to 529 savings plans allow families to use tax-free distributions for a much broader range of K-12 education expenses including not just tuition, but also curriculum, books, online materials, tutoring, standardized test fees, dual enrollment, and educational therapies for students with disabilities. Starting in 2026, the annual limit for K-12 distributions doubles from \$10,000 to \$20,000 per beneficiary. To maximize tax savings, consider timing 529 withdrawals to match qualified expenses within the same tax year, and coordinate with other education tax credits to avoid overlap.

- **Individuals' Charitable Deductions:** Beginning in 2026, the Act makes permanent the 60% ceiling for cash gifts to 50% charities, and provides that a contribution of cash to a 50% charity is deductible to the extent that the total amount of contributions of cash to 50% charities doesn't exceed the excess of:
 - (a) 60% of the taxpayer's contribution base for the tax year, over
 - (b) the total amount of contributions to 50% charities for the tax year. To maximize your deduction, prioritize cash donations to 50% charities.
- **Permanent Non-Itemizers' Charitable Deduction:** The Act provides that non-itemizers may claim a charitable deduction, not in excess of \$1,000 (\$2,000 for a joint return). To qualify for the non-itemizers' charitable deduction, contributions must be in cash, must be made to a public charity, and must meet certain requirements. The non-itemizers' charitable deduction is a below-the-line deduction, deducted from adjusted gross income in arriving at taxable income. The provision applies for tax years beginning after Dec. 31, 2025.
- **Remittance Transfers:** Starting in 2026, a new 1% excise tax will apply to remittance transfers from U.S. senders to recipients in foreign countries. Transfers funded with cash or through non-U.S. payment apps may be subject to the tax, so plan ahead and use the exempt methods (i.e., the remittance transfer is withdrawn from a financial institution governed by Title 31, Chapter 53 or funded with a U.S.-issued debit or credit card) whenever possible to minimize your tax liability on international money transfers. This provision is effective for transfers made after Dec. 31, 2025, so review your remittance practices before year-end to take advantage of these exceptions and avoid unnecessary taxes.
- **Wagering Losses:** Starting in 2026, only 90% of your wagering losses can be deducted against your winnings, even if your losses equal or exceed your winnings. To maximize your deductions, consider realizing wagering losses in 2025 before the new rule takes effect, and keep detailed records of all activity.
- **Deduction and Exclusion for Moving Expenses:** Moving expenses are now permanently nondeductible for most taxpayers, and any employer reimbursement for moving costs is fully taxable as income. If you expect to relocate for work, consider negotiating with your employer to cover the additional taxes you'll owe. Only active-duty military members moving under orders and, starting in 2026, certain intelligence community employees remain eligible to deduct or exclude qualified moving expenses, so these individuals should track and document all eligible costs for tax purposes.
- **ABLE Accounts:** The Act permanently provides for additional contributions to Achieving a Better Life Experience (ABLE) accounts for employed individuals with disabilities. It also adjusts the base limit amount by one year for inflation. The Act also permanently allows beneficiaries who make qualified contributions to their ABLE account to qualify for the Saver's Credit. To maximize tax benefits, ensure the designated beneficiary personally makes contributions by year-end to qualify for the Saver's Credit, which is now permanently available for ABLE contributions and will increase to a maximum of \$2,100 starting in 2027.

- **Limitation on Casualty Loss Deduction:** Starting in 2026, personal casualty loss deductions are permanently limited to losses from federally declared disasters (and certain state-declared disasters). If you experience a loss due to a qualifying disaster, be sure to keep detailed records.

Termination of Energy Initiatives

- **Energy efficient commercial buildings deduction:** Under the Act, the energy efficient commercial building deduction terminates for the cost of energy efficient commercial building property whose construction begins after June 30, 2026.
- **Cost recovery for energy property:** The Act eliminates 5-year MACRS classification for energy property effective for property for which construction begins after 2024.
- **Advanced energy project credit:** Effective July 4, 2025, "add backs" in the event of the revocation of a project certification are discontinued.
- **Advanced manufacturing production credit:** The Act terminates the credit for wind energy components produced and sold after Dec. 31, 2027. It also subjects pre-Act applicable critical minerals to a new phaseout schedule and tightens the rules regarding foreign entities.
- **Energy efficient home improvement and new energy efficient home credits:** The energy efficient home improvement credit under Code Sec. 25C is terminated for property placed in service after 2025. The new energy efficient home credit under Code Sec. 45L terminates for any qualified new energy efficient home acquired after June 30, 2026.
- **Residential clean energy credit:** The residential clean energy expenditures credit is terminated for any expenditures made after 2025.
- **Clean vehicle credits:** The credits for new and previously owned clean vehicles terminate for vehicles acquired after Sept. 30, 2025. The credit for qualified commercial clean vehicles also terminates for vehicles acquired after Sept. 30, 2025.
- **Alternative fuel vehicle refueling property credits:** The credit for "alternative fuel vehicle refueling property" (such as an EV charger) terminates for property placed in service after June 30, 2026.

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