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ONE BIG BEAUTIFUL BILL ACT SIGNED INTO LAW

ZINNER & CO.'S LATEST PUBLICATION DISCUSSES THE
IMPACT OF THE ONE BIG BEAUTIFUL BILL ON BOTH
INDIVIDUAL TAXPAYERS AND BUSINESSES.

..... • PREPARED BY

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On July 4, President Donald Trump signed the One Big Beautiful Bill Act (“OBBB”) into law after the Senate and House passed the bill on July 1 and July 3, respectively.

The OBBB includes numerous tax changes, including permanent and limited modification of many tax provisions under the Tax Cuts and Jobs Act of 2017 (“TCJA”) that were set to expire after 2025, new provisions promised by President Trump during his 2024 campaign, elimination or modification of most green energy provisions, and dozens of other changes affecting individuals and businesses.

Individual Tax Provisions

The OBBB essentially preserves the TCJA’s tax structure relating to individual taxpayers on a permanent basis.

Extended or Modified Provisions (Individuals)

- **Tax brackets:** The bill permanently extends the individual tax rates introduced by the TCJA and adds an extra year of inflation adjustment to the 10 percent, 12 percent, and 22 percent tax brackets.
- **Standard deduction and personal exemptions:** The OBBB permanently terminates the deduction for personal exemptions that was suspended from 2018 through 2025 under TCJA while slightly increasing the standard deduction.
 - *Beginning in 2025*, the standard deduction for a single filer will increase to \$15,750 (\$15,000 under current law), head of household will increase to \$23,625 (\$22,500 under current law), and married taxpayers filing jointly will see an increase to \$31,500 (\$30,000 under current law). These increases will be permanent and will continue to increase annually with inflation.
- **State and local (SALT) tax cap:** The SALT cap, which was limited to \$10,000 under TCJA, will be increased to \$40,000 (\$20,000 in the case of a married taxpayer filing separately) *beginning in 2025*. Such amount will increase to \$40,400 in 2026 (\$20,200 if filing separately) and will then increase 1 percent per year through 2029. However, the \$10,000 SALT cap will be restored for 2030 and beyond.
 - **Income-based phase out:** For 2025, the increased cap phases out to the extent modified AGI exceeds \$500,000 (\$250,000 if married filing separately) but cannot reduce the SALT deduction below \$10,000. Accordingly, the deduction will be fully phased down to the minimum for taxpayers with \$600,000 or more of modified AGI (\$350,000 if married filing separately). The income-based thresholds increase to \$505,000 (or \$252,500 if filing separately) in 2026 and then by 1 percent increments thereafter.

- **Limitation on itemized deductions:** The OBBB limits taxpayers in the 37 percent bracket to \$0.35 of tax benefit per \$1 of itemized deductions. *The limitation is effective for tax years beginning after Dec. 31, 2025.*
- **Miscellaneous itemized deductions:** The repeal of miscellaneous itemized deductions, other than for certain educator expenses, has been made permanent by OBBB.
- **Excess business losses:** Initially, under TCJA, business losses could offset up to \$250,000 of nonbusiness income (\$500,000 for joint filers), which, after being adjusted for inflation, currently equals \$313,000 in 2025 (\$626,000 for joint filers). This rule was scheduled to expire after 2028. The OBBB permanently extends this rule and resets the inflation-adjusted limitation to \$250,000 (\$500,000 for joint filers) *for the 2026 tax year*. The 2026 limitation amount will be adjusted for inflation in subsequent years.
- **Child tax credit:** The TCJA temporarily increased the child tax credit to \$2,000. The OBBB makes the child tax credit permanent, increases the credit to \$2,200 *beginning in 2025*, and it will increase for inflation starting in 2026. In addition, the \$500 non-child dependent credit and increased phase-out thresholds were made permanent.
- **Alternative minimum tax (“AMT”):** Increased AMT exemptions and related phase-out thresholds under TCJA significantly reduced the number of taxpayers subject to AMT, but were set to sunset after 2025. The OBBB permanently extends them with some changes to the exemption phase-out, which may pull more upper-income taxpayers into AMT than under TCJA *starting with the 2026 tax year*.
- **Casualty loss deductions:** The OBBB expands casualty loss deductions to include disasters declared by state governors *beginning in 2026*. This is an expansion of the TCJA, which limited casualty loss deductions to only those incurred in a presidentially declared disaster area.
- **Mortgage insurance premium deduction:** *Beginning in 2026*, the OBBB will permanently permit the deduction of mortgage insurance premiums on eligible acquisition debt.
- **Mortgage interest deduction:** TCJA temporarily limited the deduction of mortgage interest to the first \$750,000 of acquisition indebtedness through 2025. OBBB made this limitation permanent.
- **Home equity loans:** The TCJA temporarily limited the deduction of interest on home equity loans (unless used to buy, build, or substantially improve a taxpayer’s home) through 2025. OBBB made this limitation permanent.
- **Gambling losses:** Under TCJA, gambling losses are generally deductible as an itemized deduction only to the extent of gambling winnings through 2025. The OBBB permanently

restricts the deduction to 90 percent of gambling losses, not to exceed gambling winnings. *The 90 percent restriction will begin in 2026.*

- **Student loan discharge:** Under TCJA, student loan discharges occurring due to death or disability were excluded from taxable income through 2025. The OBBB permanently extends this provision. Separately, the American Rescue Plan Act expanded the exclusion under TCJA to cover essentially all student loan forgiveness through the end of 2025, but the OBBB is letting this expansion expire.
- **Employer-provided student loan payments:** The OBBB makes permanent an exclusion from income of up to \$5,250 for employer-provided student loan payments. In addition, this exclusion amount is adjusted for inflation beginning after 2026.
- **Moving expenses:** Under TCJA, moving expenses were not deductible, other than for certain members of the military, through 2025. The OBBB makes this provision permanent, but does expand the exception for certain members of the military to include members of the intelligence community.
- **Energy credits:** The OBBB repeals several Inflation Reduction Act green energy tax credits primarily aimed at individuals, such as electric vehicle and residential energy efficiency credits. The earliest credits to be terminated are the Previously-Owned Clean Vehicle Credit and the Clean Vehicle Credit, which *both expire after Sept. 30, 2025.*
- **Estate Tax Exemption:** Under TCJA, the estate and gift tax exemption was increased to \$15 million for the 2018 tax year and adjusted for inflation through 2025. For 2025, the exemption is currently \$13.99 million per person. The OBBB permanently resets the exemption to \$15 million for the 2026 tax year, which will be increased for inflation going forward. The GST exemption has also been increased to \$15 million per person, matching the estate and gift tax exemption. The rules around GST tax rates and portability remain unchanged.

New Provisions (Individuals)

- **No tax on tips:** The OBBB temporarily allows of a deduction of up to \$25,000 for qualified tips. The deduction will phase out at a rate of 10 percent of the individual's modified adjusted gross income (AGI) that exceeds \$150,000 (\$300,000 for married taxpayers filing jointly). Qualified tips must be received from a job "customarily and regularly" associated with tips. The deduction will be available to individual taxpayers regardless of whether they itemize and will be available to both employees and independent contractors. Married taxpayers will need to file jointly to take the deduction. *The deduction will be available from 2025 through 2028.*
- **No tax on overtime pay:** The OBBB temporarily allows for a maximum deduction of \$12,500 (\$25,000 for joint filers) for qualified overtime compensation per year. For this provision, overtime

compensation is the pay that exceeds a taxpayer's regular rate of pay, such as the "half" portion of "time-and-a-half." The deduction will phase out at a rate of 10 percent of the individual's modified adjusted gross income (AGI) that exceeds \$150,000 (\$300,000 for married taxpayers filing jointly). Married taxpayers must file jointly to take the overtime pay deduction. *The deduction will be available from 2025 through 2028.*

- **Temporary deduction for seniors:** A taxpayer and/or spouse, age 65 or older, will be eligible for an additional deduction of up to \$6,000. The deduction is reduced by 6 percent of modified AGI that exceeds \$75,000 (\$150,000 for a joint return). *The deduction will first be allowed in 2025 and will sunset after 2028.*
- **Deduction of car loan interest:** The OBBB allows a deduction of qualifying vehicle loan interest paid from *2025 through 2028*. The deduction will be capped at \$10,000 per year and will be phased out beginning at \$100,000 of modified AGI (\$200,000 for joint returns), with full phase-out at \$150,000 (\$250,000 for a joint return). The deduction will be available even if a taxpayer does not itemize deductions. The deduction will only be available with respect to a new personal vehicle purchased after 2024 that is a car, minivan, van, SUV, pickup truck, or motorcycle for which final assembly occurred in the United States.
- **Expansion of Section 1202 qualified small business stock (QSBS) exclusion:** Section 1202 permits gain from the sale of certain QSBS held in a C corporation to be excluded from income if held for at least five years. To be a qualifying small business, the corporation must have less than \$50 million in tax basis in its assets when the stock is issued to a shareholder, in addition to other requirements. The maximum exclusion for each shareholder is the greater of \$10 million or 10 times the shareholder's basis in their stock. The OBBB significantly expands this provision by making three key changes.
 - It phases in the exclusion so that: a 50 percent exclusion will be available for stock held at least three years; a 75 percent exclusion will be available for stock held at least four years; and the full 100 percent exclusion will still exist at five years.
 - The \$10 million minimum exclusion is increased to \$15 million.
 - The \$50 million asset threshold is increased to \$75 million.

These changes will be effective for stock issued after the OBBB's enactment date, while stock issued prior to that enactment date will continue to operate under the previous rules.

- **Adoption credit:** *Beginning in 2025*, the OBBB will allow up to \$5,000 of the adoption credit to be refundable. Under prior tax law, the credit was not refundable.
- **Dependent care assistance:** An employee is currently permitted to exclude from taxable income up to \$5,000 (\$2,500 in the case of separate returns) of dependent care assistance

provided by an employer. The OBBB will increase this amount to \$7,500 (\$3,750 in the case of separate returns) *beginning in 2026*.

- **Child and dependent care credit:** Individuals may claim a credit for childcare incurred for dependents that allows them to seek or maintain employment. The OBBB increases the maximum credit rate from 35 percent to 50 percent of qualifying expenses (a maximum of \$3,000 for one qualifying individual and up to \$6,000 for multiple qualifying individuals) and also increases the phase-outs based on AGI, which will enhance the benefit for those making less than \$105,000 (\$210,000 for married filers). *These changes are effective in 2026.*
- **Charitable contributions for non-itemizers:** The OBBB allows for a charitable contribution deduction for non-itemizers *beginning in 2026* of up to \$2,000 for joint filers (\$1,000 for all others). This is a permanent provision.
- **Charitable contribution for itemizers:** The OBBB imposes a 0.5 percent floor on deductions to charitable contributions for those who choose to itemize. *This change, effective beginning with the 2026 tax year, will limit the deduction by allowing it only to the extent the aggregate value of charitable contribution exceeds 0.5 percent of that individual's AGI.*
- **Credit for contributions to scholarship granting organizations:** The OBBB provides a tax credit for charitable contributions to scholarship granting organizations (“SGO”), which are typically affiliated with private elementary and secondary schools. The credit is limited to \$1,700, and any unused credit can be carried forward for five years. If the taxpayer receives a state tax credit for a donation to an SGO, the Federal credit is reduced to the extent of the state credit. *These provisions will apply beginning in 2027.*
- **Expansion of 529 plans:** Prior to the OBBB, 529 plan funds could only be used for higher education expenses and up to \$10,000 of K–12 tuition. The OBBB expands the rules to allow 529 funds to be used for higher education expenses, K - 12 tuition, expenses for curriculum and curricular materials, books or other instructional materials, online educational materials, tutoring or educational classes outside the home, certain testing fees, fees for dual enrollment in an institution of higher education, certain educational therapies for students with disabilities, and qualified postsecondary credentialing expenses. *These changes take effect for 529 plan distributions occurring after the enactment date of the OBBB. Additionally, beginning in 2026, the OBBB will increase the annual limitation of K-12 expenses eligible for payments from the 529 plan from \$10,000 to \$20,000.*
- **Trump accounts:** The OBBB creates a new kind of tax-preferred savings account for beneficiaries under the age of 18. The accounts operate in a similar manner to individual retirement accounts except that contributions are not deductible, investments must meet specific criteria, contributions are capped at \$5,000 per year (adjusted for inflation), and distributions are

only allowed after the beneficiary turns 18. In addition, the OBBB creates a pilot program, upon election, that provides a \$1,000 contribution into an account for a U.S. citizen born between 2025 and 2029.

BUSINESS TAX PROVISIONS

Extended or Modified Provisions (Businesses)

- **Qualified business income deduction (“QBID”):** The OBBB includes a permanent extension of the QBID, which first came into existence under TCJA and was to sunset after 2025. It also expands the deduction limit phase-in range by increasing the \$50,000 (non-joint returns) and \$100,000 (joint returns) amounts to \$75,000 and \$150,000, respectively, to tax years *beginning after 2025*. It also creates a minimum deduction of \$400 for certain taxpayers with active business income for tax years *beginning after 2025*.
- **R&D expenditures under Section 174:** The OBBB reinstates the immediate deductions for all domestic research and experimental expenses *in 2025*. This will replace the current law, which required a five-year amortization period for such expenses. Foreign costs are excluded from the OBBB changes and will continue to be amortized over 15 years. Under the OBBB, any remaining domestic R&D capitalized in 2022, 2023, or 2024 may be deducted immediately in 2025, or else spread evenly between 2025 and 2026. Certain small taxpayers with gross receipts under \$31 million will be permitted to amend their returns from 2022 through 2024 to remove the capitalization of domestic R&D. Finally, software development expenses will be permanently treated as research expenses under Section 174.
- **Interest expense limitation under Section 163(j):** Since 2022, the interest expense limitation under IRC 163(j) has been calculated based on 30 percent of EBIT (earnings before interest and taxes). The OBBB will calculate the limitation based on 30% of EBITDA (earnings before interest, taxes, depreciation, and amortization) which should increase deductible interest for taxpayers subject to 163(j). This modification is *effective for 2025* and is permanent.
- **Bonus depreciation:** 100 percent bonus depreciation under TCJA was phasing out over five years and was to be fully phased out by 2027. The OBBB makes 100 percent bonus depreciation permanent on eligible asset purchases for property *acquired and placed in service after Jan. 19, 2025*.
- **Section 179 expensing:** The OBBB doubles the Section 179 deduction from \$1,250,000 to \$2,500,000 and increases the asset acquisition limit from the current \$3,130,000 to \$4,000,000. *These increases take effect in 2025*.
- **Employer childcare credit:** Employers are permitted a credit of up to \$150,000 for providing childcare for the benefit of employees. The credit is calculated as 25 percent of the employer’s costs of building and operating a childcare facility or the cost of contracting with a third-party

provider. The OBBB increases this portion of the credit to 40 percent (50 percent for small businesses). It also increases the total credit limit to \$500,000 (\$600,000 for small businesses). *These changes all take effect in 2026.*

- **Employer family and medical leave credit:** The TCJA created a two-year credit for compensation paid to employees while on family or medical leave as long as a plan existed for such arrangement that met certain requirements. That credit was subsequently extended several times and was set to expire at the end of 2025. The OBBB permanently extends this credit while also expanding it in three keyways.
 - The credit is expanded to include premiums paid by an employer on an insurance policy covering employee family and medical leaves.
 - Any leave paid for by a state or local government is included in the determination of whether the employer has a plan that meets the thresholds, but the amounts paid under the plan still do not qualify for the credit.
 - It lowers the minimum employee work requirement from one year to six months.

These changes all take effect in 2026.

New Provisions (Businesses)

- **Special depreciation for qualified production property (“QPP”):** The OBBB will create a new 100 percent deduction for QPP constructed after Jan. 19, 2025, and before Jan. 1, 2029, that is placed in service no later than Dec. 31, 2030. QPP is any nonresidential real property that is integral to the taxpayer’s qualified production activity (“QPA”). The property must be in the U.S. for the deduction to be available. A QPA is any manufacturing, production, or refining of tangible personal property that results in the substantial transformation of the product.
- **Charitable contributions of corporations:** Corporations are permitted to deduct charitable contributions up to 10 percent of taxable income. The OBBB will place a 1 percent floor on deductions to charitable contributions made by corporations *beginning in 2026*. The contributions under the floor would become permanently nondeductible unless the corporation exceeds the 10 percent limitation in which case the amount disallowed within the 1 percent floor will carry forward to prevent the same contributions from being subjected to a 1 percent floor across multiple years.
- **ERC retroactive termination and enforcement:** The OBBB disallows refund claims filed for the third and fourth quarters of 2021 that weren’t filed by Jan. 31, 2024. Generally, the statute of limitations will be extended to six years, and additional rules will coordinate wage deductions for disallowed claims.

- **Increased threshold for 1099 reporting:** The OBBB increases the 1099 reporting threshold from \$600 to \$2,000 beginning with *payments made in 2026*. The reporting threshold will also be adjusted for inflation beginning with payments made in 2027.

CONTACT US

Zinner & Co. LLP, is here to help. If you have any questions or would like to talk to someone about how the OBBB may impact you or your business, please contact the Zinner & Co. Tax Team and a representative will reach out to you.

ABOUT ZINNER

In 1938, Harry Zinner had a vision for long term success. He founded a Cleveland-based bookkeeping firm that focused on integrity, commitment and a pledge to help individuals, not-for-profit organizations and closely-held companies grow and prosper, not just for today, but for decades to follow.

Today, Zinner & Co. provides tax, accounting and management advisory services to guide businesses from startup to succession planning and help individuals create a solid financial foundation.

Our Beachwood, Ohio office is home to a dedicated team of CPAs and management advisors that provide a full slate of services beyond traditional tax and accounting. Contact us to discover how we can help you achieve your greatest financial potential.

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