Norwalk Business Service, Inc.

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*****New Tax Law – One Big Beautiful Bill *****

Dear **Client** :

We are writing to inform you about the significant new tax legislation (the Act) signed into law on July 4, 2025 (informally known as One **Big Beautiful Bill** or OBBB). The Act is comprehensive and includes key changes to a number of tax provisions potentially affecting your situation. If you have questions about how this bill will affect your tax situation feel free to email us. However, if wish to do tax planning or your question cannot be answered with a brief email, we recommend setting up a consultation appointment with us. Our consultation fee of $200.00 will apply to any appointment.

Three of the items that have generated the most interest in the new bill are the provisions that affect Tips, Overtime, and Social Security. The changes will be listed below. **Social Security is still taxable**. Please bring your 1099-SSA, if you receive Social Security, to your appointment to avoid penalties and interest from understating your income on your tax return.

Individual Tax payer provisions in OBBB:

- **Deduction for Taxpayers Age 65 or Older (Social Security tax provision):** 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, subject to phaseout for a taxpayer with MAGI exceeding $75,000 (single) or $150,000 (joint). While a deduction can eliminate tax for some lower income individuals, many of our clients would still pay tax on social security, and that income must be reported.

- **Deduction for Tips Earned:** The Act adds a new deduction of up to $25,000 for "qualified tips," subject to phaseout for a taxpayer with MAGI exceeding $150,000 ($300,000 for joint filers). However, tips from certain specified service trades or businesses don't qualify and other rules apply. Also, IRS is required to publish a list of occupations that customarily receive tips (including occupations that customarily and regularly received tips before 2025). The deduction is set to expire after 2028.

- **Deduction for Overtime Work:** The Act also adds a new deduction of up to $12,500 ($25,000 for joint filers) for "qualified overtime compensation," subject to phaseout for a taxpayer with MAGI exceeding $150,000 ($300,000 for joint filers). Qualified overtime compensation is defined by reference to the Fair Labor Standards Act (and doesn't include qualified tips). The amount eligible for the deduction is the 50% extra you are paid for any hour of overtime worked. The deduction is set to expire after 2028.

- **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.

- **Individual SALT Limitation:** The SALT (state and local tax) deduction cap is temporarily increased to $40,000 for 2025 ($40,400 in 2026, with 1% annual increases through 2029), before reverting to $10,000 in 2030. For those with modified adjusted gross income (MAGI) above $500,000 in 2025, the deduction phases out by 30% of the excess over the threshold, but will not drop below $10,000.

- **Solar, Battery, and other clean energy credits repealed:** OBBB eliminates the 30% credit for the installation of solar or battery backup technology as of 12/31/2025. If you are in the process of getting solar, it will still qualify for the credit as long as it is in production by 12/31/2025. Projects that are not given permission to operate by then, will not qualify. Other projects, like heat pumps and windows, will also no longer receive a federal tax credit.

- **Electric Vehicle Tax Credit Repealed: Effective September 30, 2025**, the Clean vehicle credit, the commercial clean vehicle credit, and the previously owned clean vehicle credit will be repealed. To qualify for a credit on these vehicles, you must purchase your eligible vehicle before **9-30-2025.**

- **Child Tax Credit:** The Child Tax Credit (CTC) is made permanent and increases to $2,200 per qualifying child, subject to inflation adjustments after 2025.

- **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

- **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.

- **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.

- **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. The top individual rate will remain at 37% (instead of reverting to 39.6%), and the marriage penalty relief for most brackets continues.

- **Estate & Gift–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.

- **Deduction for Qualified Residence Interest:** The deduction for mortgage interest on home acquisition debt is now permanently capped at $750,000.($375,000 married filing separately)

- **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.

- **Miscellaneous Itemized Deductions:** The Act permanently eliminates miscellaneous itemized deductions for individual taxpayers. The Act adds a new deduction 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.

- **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.

- **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.

- **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.

- **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).

- **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.

- **Wagering Losses:** Starting in 2026, losses that may be deducted are limited to 90% of the losses incurred. The limit of the losses can still fully offset any gambling winnings if 90% exceeds your gambling winnings.

- **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).

Business Provisions in OBBB:

- **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.

- **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).

- **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.

- **Excess business losses:** The Act makes the **Code Sec. 461(l)** limit on excess business losses permanent.

- **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.

- **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.

Very truly yours,

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