



Tax & Business Alert

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KEY TAX LAW CHANGES FOR INDIVIDUALS AND BUSINESSES UNDER THE OBBBA

On July 4, President Trump signed into law the far-reaching legislation known as the One, Big, Beautiful Bill Act (OBBBA). As expected, it extends and enhances many of the tax breaks from the Tax Cuts and Jobs Act (TCJA). It also includes several of Trump's campaign promises — though many are only temporary — and eliminates tax breaks related to clean energy. Here's a rundown of some of the main tax law changes to be aware of as you plan for the 2025 tax year.

HIGHLIGHTS FOR INDIVIDUALS

- Makes permanent the TCJA's individual tax rates of 10%, 12%, 22%, 24%, 32%, 35% and 37%,
- Makes permanent the near doubling of the standard deduction, plus for 2025 increases it to \$15,750 for single filers, \$23,625 for heads of households and \$31,500 for joint filers, with annual inflation adjustments going forward,
- Make permanent the higher child tax credit, plus for 2025 increases it to \$2,200, with annual inflation adjustments going forward,
- Temporarily increases the limit on the deduction for state and local taxes (the SALT cap) to \$40,000 for 2025, with a 1% increase each year through 2029, after which the \$10,000 limit will return,
- Expands the allowable education expenses that can be paid with tax-free Section 529 plan distributions,



beginning July 5, 2025, or Jan. 1, 2026, depending on the type of expense,

- Permanently increases the federal gift and estate tax exemption amount to \$15 million for individuals and \$30 million for married couples beginning in 2026, with annual inflation adjustments going forward,
- For 2025–2028, creates a new deduction of up to \$25,000 for tip income in certain industries, subject to income-based phaseouts,

- For 2025–2028, creates a new deduction of up to \$12,500 for single filers or \$25,000 for joint filers for qualified overtime pay, subject to income-based phaseouts,
- For 2025–2028, creates an above-the-line deduction of up to \$10,000 for qualified passenger vehicle loan interest on the purchase of certain American-made vehicles, subject to income-based phaseouts,
- For 2025–2028, creates an additional deduction of up to \$6,000 for taxpayers age 65 or older, subject to income-based phaseouts, and
- Eliminates clean energy tax credits, generally after 2025, such as the energy-efficient home improvement and residential clean energy credits – but eliminates the clean vehicle credits for both new and used vehicles after Sept. 30, 2025.
- Makes bonus depreciation permanent and increases it to 100% for qualified new and used assets acquired after January 19, 2025,
- Increases the Sec. 179 expensing limit to \$2.5 million and the expensing phaseout threshold to \$4 million for 2025, with annual inflation adjustments going forward,
- Permanently allows the immediate deduction of domestic research and experimentation expenses (retroactive to 2022 for eligible small businesses), and
- Eliminates clean energy tax incentives, such as the alternative fuel vehicle refueling property credit and the Sec. 179D deduction for energy-efficient commercial buildings after June 30, 2026 – but eliminates the qualified commercial clean vehicle credit after Sept. 30, 2025.

HIGHLIGHTS FOR BUSINESSES

- Makes permanent and expands the 20% Sec. 199A qualified business income (QBI) deduction for owners of pass-through entities (such as partnerships, limited liability companies and S corporations) and sole proprietorships,

HOW WILL YOU BE AFFECTED?

While this list may seem extensive, it represents just a sampling of the tax changes included in the 870-page OBBBA. Contact us with questions about how the new law will affect you. ■

SHOULD YOU BE MAKING ESTIMATED PAYMENTS?

If your federal tax withholding isn't enough to cover your total tax liability, you may need to make estimated tax payments. This typically applies if you earn income from sources such as interest, dividends, self-employment, capital gains, or other taxable income. The following rules explain how to make these payments without incurring an underpayment penalty.

HOW MUCH TO PAY AND WHEN

Individuals subject to estimated tax requirements generally must pay 25% of a “required annual payment” by April 15, June 15 and September 15 of the tax year and January 15 of the following year to avoid an underpayment penalty. If one of those dates falls on a weekend or holiday, the payment is due on the next business day.

So the third installment for 2025 is due on Monday, September 15. Payments are made using Form 1040-ES and may be made electronically or on paper.

WHO MUST PAY

The general rule is that you may have to pay estimated tax for 2025 if both of these conditions apply:



1. You expect to owe at least \$1,000 for 2025, after subtracting your withholding and tax credits, and
2. You expect your withholding and tax credits to be less than the smaller of: 90% of your 2025 tax liability or 100% of your 2024 tax liability (110% if your 2024 adjusted gross income was more than \$150,000, or \$75,000 if you're married filing separately in 2025).

CALCULATING PAYMENTS

If you do have to pay estimated taxes, calculating them requires projecting total income, deductions, credits and withholding for the year. After determining the required annual payment, divide that number by four and make four equal payments by the due dates.

But you may be able to use the annualized income method to make smaller payments during part of the year. This method is helpful to people whose income flow isn't uniform over the year, perhaps because the

business is seasonal. For example, suppose your income comes exclusively from a business operated in a resort area during June, July and August. In that case, you may not have to make an estimated payment, or as large a payment, for the first two installments, and then you'll need to "catch-up" when you make the third quarter payment.

FOR MORE INFORMATION

If you have questions about the estimated tax rules and how they apply to you, contact us. ■

THE QUIRKY MATH OF PARTNERSHIP INCOME

When it comes to taxation, partners in a business may find the math a bit puzzling. You may discover that the amount of partnership income you're taxed on is more than the amount that was distributed to you. That's a quirk of taxation that lies in the way partnerships and partners are taxed.

PASS-THROUGH TAXATION

Partnerships aren't subject to income tax at the entity level. Instead, each partner is taxed on the earnings of the partnership, even if the profits aren't distributed.

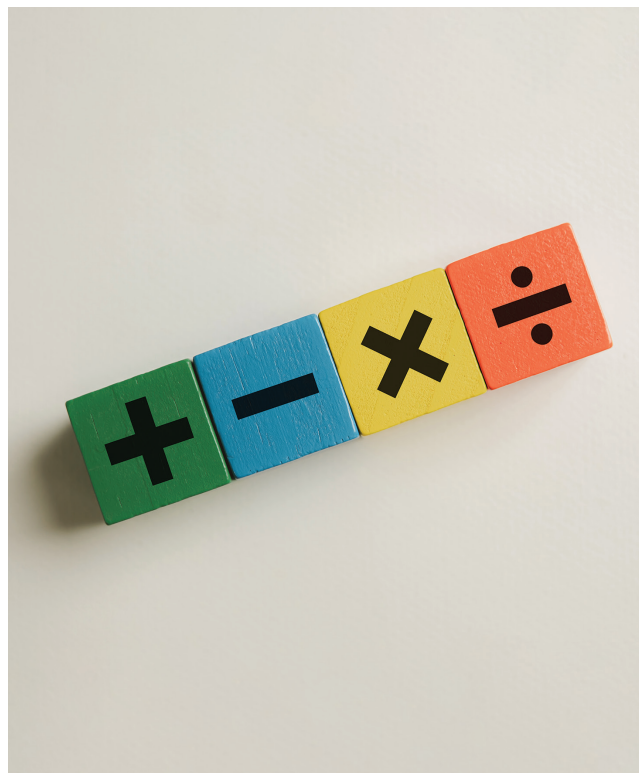
Similarly, if a partnership incurs a loss, it's passed through to the partners. (However, various rules may prevent partners from currently using their shares of the partnership's losses to offset other income.)

FILING RESPONSIBILITIES

A partnership must file an information return, IRS Form 1065, "U.S. Return of Partnership Income." On this form, the partnership separately identifies income, deductions, credits and other items.

This allows partners to properly treat items that are subject to limits or other rules that could affect their treatment at the partner level. Examples of items that may require special treatment include capital gains and losses, interest expense on investment debts, and charitable contributions. Each partner receives a Schedule K-1, showing their share of partnership items for the tax year.

Basis and distribution rules ensure that partners aren't taxed twice. A partner's initial basis in his or her partnership interest (which varies depending on how the interest was acquired) is increased by his or her share of partnership taxable income. When that income is paid out to partners in cash, they aren't



taxed on the money if they have sufficient basis. Instead, partners reduce their basis by the amount of the distribution. If a cash distribution exceeds a partner's basis, then the excess is taxed to the partner as a gain.

HEADS UP!

Understanding the ins and outs of partnership taxation can help you avoid surprises come tax time. If you're unsure how these rules apply to your specific situation, especially with complex items such as losses or special allocations, don't hesitate to reach out. We're here to help you make sense of the math. Contact us with whatever questions you may have. ■

IS NOW A SMART TIME FOR A ROTH IRA CONVERSION?_____

Market volatility may have shrunk your traditional IRA, but that could be an opportunity. A lower account value means you can convert to a Roth IRA and pay less tax on the conversion.

TRADITIONAL VS. ROTH IRAS

Traditional IRA contributions may be deductible (depending on income and employer-sponsored retirement plan participation). Funds grow tax-deferred, but withdrawals are taxed. You will owe penalties for early withdrawals and must take required minimum distributions (RMDs) beginning after age 73 (age 75 if you don't turn 73 before Jan. 1, 2033).

Roth IRA contributions aren't deductible, but withdrawals — including earnings — are tax-free if you're at least 59½ and the account has been open for five years. There are no RMDs, and contributions can be withdrawn anytime tax-free. While income limits restrict direct Roth contributions, anyone can convert a traditional IRA to a Roth. But taxes are due on the converted amount.



WHY CONVERT NOW?

A depressed IRA balance means a smaller tax bill on a Roth conversion. Once converted, there will be no taxes on future growth. But consider the following:

- Can you pay the taxes with non-IRA funds? Using retirement funds to pay the tax could undermine the benefits.
- What's your timeline? Conversions usually make sense if you don't plan to tap the funds right away, allowing for long-term, tax-free growth.

You don't need to convert all at once. Spreading conversions over several years can reduce the tax impact and provide flexibility.

LET'S TALK

A Roth conversion can be a savvy move, but it isn't for everyone. Contact us to explore whether it fits your retirement strategy. ■