Tax & Business Alert

OCTOBER 2025

ENHANCED SALT TAX BREAK WILL HELP MANY HOMEOWNERS

The One Big Beautiful Bill Act (OBBBA), enacted on July 4, will allow more taxpayers to fully deduct their state and local tax (SALT) expenses (including property tax), providing much-needed breathing room to many Americans. Here are the details.

SALT DEDUCTION EXPANDED

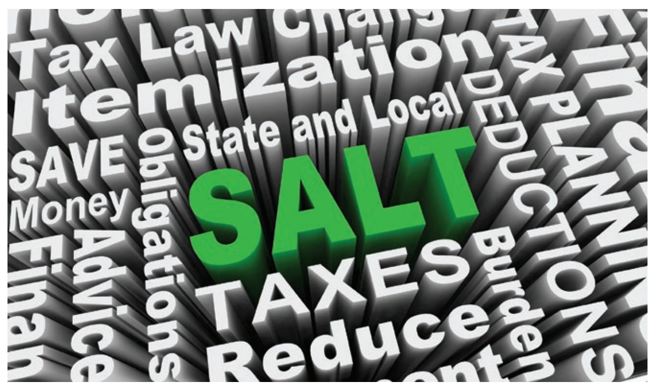
Under the Tax Cuts and Jobs Act, the itemized deduction for state and local tax (SALT) was limited to $10,000 ($5,000 for married individuals who file separately) beginning in 2018.

This limitation negatively affected taxpayers living in locations with high state income tax rates and those who pay high property taxes because:

- They live in a high-property-tax jurisdiction,
- They live in a location with high property values,
- They own an expensive home, or
- They own both a primary residence and one or more vacation homes.

Thanks to the OBBBA, for 2025 through 2029, the SALT deduction limit increases from $10,000 to $40,000 (or $20,000 for separate filers) with 1% annual inflation adjustments. So, for 2026, the cap will be $40,400 ($20,200 for separate filers).

But unless Congress takes further action, in 2030, the SALT deduction limit is scheduled to revert to the prior-law limit of $10,000 ($5,000 for separate filers).



Note: Several states have established SALT deduction workarounds for pass-through entities. These work-arounds are not addressed or limited by the OBBBA.

SMALLER BENEFIT FOR SOME TAXPAYERS

Under OBBBA, for 2025, the higher SALT limit begins to be reduced for taxpayers with modified adjusted gross income (MAGI) over $500,000 ($250,000 for separate filers). These thresholds will also be increased by 1% annually for 2026 through 2029.

When a taxpayer's MAGI exceeds the applicable threshold, the otherwise allowable SALT deduction limitation is reduced by 30% of MAGI above the threshold, but not below $10,000 ($5,000 for separate filers). Here's an example: Greg and Tina are a married couple who file jointly and live in a high-tax state. For 2025, their combined SALT expenses are $60,000. Their MAGI is $550,000 for 2025, which is $50,000 above the applicable threshold. Therefore, their SALT deduction for 2025 is limited to $25,000 [$40,000 minus (30% times $50,000)].

Because of the 30% reduction, the expanded SALT deduction doesn't benefit taxpayers with MAGI at or above $600,000 ($300,000 for separate filers).

DEDUCTING STATE AND LOCAL INCOME VS. SALES TAX

The SALT deduction continues to be available for property taxes *plus* the total state and local income taxes *or* the total of all sales taxes. Choosing to deduct sales taxes is a helpful option if you owe little or nothing for state and local income taxes.

If you opt to deduct sales tax, you don't have to save all of your receipts for the year and manually calculate your sales tax; you can use the IRS Sales Tax Calculator to determine the amount of sales tax you can claim. (It includes the ability to add actual sales tax paid on certain big-ticket items, such as a car.)

START PLANNING NOW

If you have high SALT expenses, to get the maximum benefit from the increased deduction limit, you need to plan carefully between now and year end. For example, you may want to take steps to keep your MAGI under the reduction threshold. Or you might want to accelerate property tax payments into 2025. We can help you determine the right strategy for your specific situation. ■

TWO BIG WINS FOR BUSINESS IN THE NEW TAX LAW

The One Big Beautiful Bill Act (OBBBA) introduces a range of tax changes that will impact businesses. Many provisions set to expire this year are now being extended or made permanent. Below is a snapshot of two important changes to help you make the most of tax planning in the fourth quarter of 2025 and going forward.

HOW THE DEDUCTION FOR R&E EXPENSES HAS CHANGED

Under the Tax Cuts and Jobs Act (TCJA), businesses had to amortize deductions for Section 174 research and experimentation (R&E) costs over five years for expenses incurred in the United States or 15 years for those incurred abroad. This provision used a mid-year rule that effectively stretched write-offs over six years. The OBBBA changes that by permanently allowing full, immediate deductions for domestic R&E expenses starting in the 2025 tax year. Foreign R&E expenses will still be amortized over 15 years.

In addition, the OBBBA lets "small businesses" — in 2025, those with average annual gross receipts of $31 million or less for the past three years — claim R&E deductions retroactively to 2022. A business of any size with domestic R&E costs from 2022 to 2024 can choose to speed up the remaining deductions for those years over a one- or two-year period.

HOW THE BUSINESS INTEREST DEDUCTION HAS CHANGED

Generally, the TCJA limited business interest deductions to 30% of the taxpayer's adjusted taxable income (ATI) for the year. Before the OBBBA, ATI generally referred to earnings before interest and taxes. For tax years beginning after December 31, 2024, the OBBBA increases the cap on the business interest deduction by excluding depreciation, amortization and depletion when calculating ATI. This favorable change typically increases ATI, allowing taxpayers to deduct more business interest expense.

But it's important to note that, in 2025, taxpayers with average annual gross receipts for the last three years that don't exceed $31 million are exempt from the interest deduction limitation.

RETHINK TAX PLANNING

For business owners, the OBBBA helps resolve tax planning uncertainty. Keep in mind, these are just two of the key changes for businesses in this tax legislation.

Contact us to discuss the full range of tax provisions covered by the sweeping new law. We can help you optimize any extended or new provisions that are relevant to your situation and reduce your tax obligations for 2025 and beyond. ■

FAMILY BUSINESSES AREN'T IMMUNE TO FRAUD

A large percentage of companies in the United States are family businesses, and they produce much of the country's gross domestic product. Many are majority owned by a single family, with multiple family members involved in management. These businesses can be a significant source of wealth. They may also potentially face higher fraud risks. Here's why, and how you can reduce those risks.

KEY FACTORS THAT MAY LEAD TO PROBLEMS

While many business owners admit the need for fraud prevention, it can be hard for them to believe that a family member is engaging in or ignoring unethical activity. Loyalty is valuable, but it may make a family business more vulnerable to fraud.

Just like any other company, family businesses need internal controls that make fraud difficult to carry out undetected. Awkward or not, someone must exercise authority, address issues, and keep the business moving forward.

SEEK INDEPENDENT ADVICE

Even trusted leaders can commit fraud, so independent auditors and legal advisors are essential. Avoid relying solely on relatives or friends. Instead, engage objective professionals.

Independent audits safeguard stakeholders. If you have a board, include at least one strong outsider.

DEALING WITH THE OFFENDER

Fraud prevention is harder in family businesses because of how incidents are handled. Even when legal action is possible, families rarely pursue it. Many protect the offender from scandal rather than maintain ethical standards, and fraudsters know this.

If you uncover fraud by a family member, consult a trusted attorney or accountant. Advisors can explain the consequences to the perpetrator, but if that fails, you may have no choice but to seek prosecution.

AVOID BLIND TRUST

Working with family members can be advantageous, but be aware of the pitfalls. To make it easier to maintain high ethical standards and prevent fraud, rely on professional advisors and nonfamily officers for perspective and objective advice. Contact us for help with internal controls. ■

TAX CALENDAR

October 10
Employees must report September tip income of $20 or more to employers (Form 4070).

October 15
Individuals whose personal federal income tax returns for 2024 received an automatic extension must file them no later than today and pay any tax, interest and penalties due. In addition:

- Those with offshore bank accounts must file the Financial Crimes Enforcement Network (FinCEN) Report 114 "Report of Foreign Bank and Financial Accounts" (also known as the "FBAR"), if not filed already. (This report received an automatic extension to today if not filed by the original due date of April 15.)
- Calendar-year C corporations that obtained an extension should file their 2024 Form 1120 by this date.
- If the monthly deposit rule applies, employers must deposit the tax for payments for September Social Security, Medicare, withheld income tax and nonpayroll withholding.

October 31
Employers must file Form 941 for the third quarter of 2025 (November 10 if all taxes are deposited in full and on time). Also, employers must deposit FUTA taxes owed through September if the liability is more than $500.

November 10
Employees must report October tip income of $20 or more to employers (Form 4070).

November 17
Calendar-year tax-exempt organizations that obtained an extension should file their 2024 returns. In addition:

- If the monthly deposit rule applies, employers must deposit the tax for payments for October Social Security, Medicare, withheld income tax and nonpayroll withholding.

December 10
Employees must report November tip income of $20 or more to employers (Form 4070).

December 15
Calendar-year corporations must pay fourth-quarter 2025 estimated tax payments. In addition:

- If the monthly deposit rule applies, employers must deposit the tax for payments for November Social Security, Medicare, withheld income tax and nonpayroll withholding.

TAX BREAKS FOR MEDICAL EXPENSES

Depending on your situation, you may be able to claim certain medical expenses as deductions on your tax return. However, you must itemize deductions, and having enough expenses to qualify can be challenging. Here are five tips to keep in mind:

1. Consider "bunching" expenses. You can only deduct unreimbursed medical costs that exceed 7.5% of your adjusted gross income (AGI). If your 2025 itemized deductions will be higher than your standard deduction, consider moving or "bunching" nonurgent medical procedures and other controllable expenses into the same year. This strategy may help you surpass the 7.5% threshold and maximize your deduction.

2. Include insurance premiums. Premiums can add up to thousands of dollars annually, even if you pay only part of the cost yourself. (But first check that they aren't already coming out of your paycheck pretax.) Long-term care insurance premiums also qualify, subject to age-based limits.

3. Claim travel costs for medical care. For 2025, you can deduct travel expenses for medical treatment, including taxi fares, public transit, or 21 cents per mile (plus tolls and parking) if driving.

4. Time certain medical purchases strategically. Qualifying expenses include eyeglasses, hearing aids, specific dental work, and prescription drugs (including insulin). However, over-the-counter items, such as aspirin and vitamins and federally illegal treatments (for example, medical marijuana) aren't deductible, even if allowed by state law.

5. Don't overlook smoking-cessation and weight-loss programs. You can deduct costs for smoking-cessation programs and prescribed medications to reduce nicotine withdrawal — but not over-the-counter gum or patches. Weight-loss programs qualify if prescribed to treat a physician-diagnosed disease. Deductible costs include program fees and meeting charges, but not the cost of diet food.

If you still have questions, see IRS Publication 502 for complete details, or give us a call for personalized guidance. ■