Tax & Business Alert

JANUARY 2026

CAN YOU CLAIM A TAX DEDUCTION FOR TIPS OR OVERTIME INCOME?

If you received tips or overtime pay in 2025, you may be eligible for a new deduction when you file your income tax return. Last year's One Big Beautiful Bill Act (OBBBA) created both deductions, which can be claimed whether or not you itemize deductions. But various rules and limits apply. Also be aware that such income may still be fully taxable for state and local income tax purposes. And federal *payroll* taxes still apply to tips and overtime income you deduct for federal *income* tax purposes.

DEDUCTING TIPS

Eligible taxpayers can deduct up to $25,000 of annual qualified tips income. The deduction begins to phase out when modified adjusted gross income (MAGI) exceeds $150,000 ($300,000 for married couples filing jointly). It's completely phased out when MAGI reaches $400,000 ($550,000 for joint filers).

Qualified tips can be paid by customers in cash or with credit cards or given to workers through tip-sharing arrangements. The tips deduction is available if you receive qualified tips in an occupation that's designated by the IRS as one where tips are customary. Some examples of eligible occupation categories are beverage and food service, hospitality and guest services, personal appearance and wellness, and transportation and delivery.

The tips deduction is allowed for both employees and self-employed individuals. However, those who work in certain trades or businesses — such as health, law, accounting, financial services, investment management — are ineligible.

DEDUCTING OVERTIME

Eligible taxpayers can deduct up to $12,500 of qualified overtime income ($25,000 for joint filers). The deduction begins to phase out when MAGI exceeds $150,000 ($300,000 for joint filers). It's completely phased out when MAGI reaches $275,000 ($550,000 for joint filers).

Qualified overtime income is overtime compensation mandated under Section 7 of the Fair Labor Standards Act. It requires time-and-a-half overtime pay except for certain exempt workers. Only the extra "half" constitutes qualified overtime income and thus is deductible.

Qualified overtime income doesn't include overtime premiums that aren't required by Sec. 7, such as those required under state laws or pursuant to union-negotiated collective bargaining agreements.

REPORTING REQUIREMENTS

Under the OBBBA, qualified tips income must be reported on Form W-2, Form 1099-NEC or another specified information return or statement furnished to both the worker and the IRS. And qualified overtime income must be reported to workers on Form W-2 or another specified information return or statement furnished to both the worker and the IRS.

However, the IRS announced that for the 2025 tax year, there will be no OBBBA-related changes to federal information returns such as Form W-2, Forms 1099 and Form 941. The IRS is providing transition relief for the 2025 tax year and will update forms for the 2026 tax year.

We can help you determine your eligibility for one or both of these deductions. We'd also be pleased to answer any other questions you may have about the impact of the OBBBA on your 2025 return and 2026 tax planning. ■

BUSINESSES: ACT SOON TO TAKE ADVANTAGE OF CLEAN ENERGY TAX INCENTIVES

While the One Big Beautiful Bill Act (OBBBA) extends or enhances many tax breaks for businesses, it ends some clean energy tax incentives. Fortunately, your business may still benefit from certain clean energy breaks if it acts in the first half of 2026.

MAKE BUILDING IMPROVEMENTS

The Section 179D deduction allows owners of new or existing commercial buildings to immediately deduct the cost of certain energy-efficient improvements rather than depreciate them over the 39-year period that typically applies. The deduction is available as long as the property begins construction by June 30, 2026.

The Sec. 179D deduction is available for new construction as well as additions to or renovations of commercial buildings of any size. (Multifamily residential rental buildings that are at least four stories above grade also qualify.) Eligible improvements include depreciable property installed as part of a building's interior lighting system, HVAC and hot water systems, or the building envelope.

To be eligible, an improvement must be part of a plan designed to reduce annual energy and power costs by at least 25% relative to applicable industry standards, as certified by an independent contractor or licensed engineer. The base deduction is calculated using a sliding scale, ranging for 2026 from 59 cents per square foot for improvements that achieve 25% energy savings to $1.19 per square foot for improvements that achieve 50% energy savings.

Projects that meet specific prevailing wage and apprenticeship requirements are eligible for bonus deductions. Such deductions for 2026 range from $2.97 per square foot for improvements that achieve 25% energy savings to $5.94 per square foot for improvements that achieve 50% energy savings.

LOOK AT VEHICLE-RELATED BREAKS

The Section 45W Qualified Commercial Clean Vehicle Credit had been scheduled to expire after 2032. Under the OBBBA, it's available only for vehicles that were acquired on or before September 30, 2025. If your business acquired one or more eligible vehicles before that date, you may be able to claim the credit on your 2025 tax return.

And you still have time to install alternative fuel vehicle refueling property and claim a Section 30C tax credit for 2026. The OBBBA eliminates the credit for property placed in service after June 30, 2026. (The credit had been scheduled to sunset after 2032.) Property that stores or dispenses clean-burning fuel or recharges electric vehicles is eligible. The credit is worth up to $100,000 per item (each charging port, fuel dispenser or storage property).

DON'T WAIT

Other clean energy breaks that might still be available to you if you act soon include the clean energy investment and production credits and the advanced manufacturing production credit. Contact us for more information about clean-energy tax breaks and how your business might benefit. ■

MAKE SMART CHOICES WITH A SUDDEN WINDFALL

An unexpected influx of money — such as from an inheritance, bonus, legal settlement or lottery win — can feel exciting and full of possibility. But without a clear plan, that financial good fortune might not last as long as you'd hoped.

AVOID COMMON PITFALLS

It can be tempting to immediately buy your dream car or home, which could turn out to be an unwise purchase. Or you might be feeling generous when charities come knocking, only to find out later that they were fraudulent.

You can avoid these potential pitfalls by stashing your windfall in a bank or money market account as soon as you receive it. Waiting at least a month before you touch the money can help prevent impulse buys and other mistakes.

Also, you may owe taxes. Some windfalls, such as lottery winnings and certain legal settlements, are subject to federal tax — at a rate as high as 37% if your windfall pushes you into the top income tax bracket. State and local taxes may apply as well. A tax professional can help you determine what you owe.

USE YOUR WINDFALL WISELY

What you eventually decide to do with your windfall will depend on many factors. If you have debt, you'll probably want to pay it off — especially if it carries a high interest rate and the interest isn't deductible. Also, establishing or boosting your emergency savings can minimize the need to incur future debt.

Next, consider where you'd like to be five, 10 or 20 years into the future. Develop a budget that will help you move toward your goals — whether that means retiring early, starting a business or something else. You probably shouldn't quit your job without having thought it through carefully. Few windfalls are large enough to see you all the way through retirement (depending on your age).

PLAN FOR THE LONG TERM

Be cautious about requests for money. Friends and family members may expect to share in your good fortune or may pitch "can't-miss" investment ideas. Before making any commitments, seek professional advice. We can help you evaluate the tax impact, prioritize goals and create a personalized plan to make your windfall last — and grow — for years to come. ■

TAX CALENDAR

January 15

Individuals must pay their final 2025 estimated tax payment.

February 2

Employers generally must file:

- 2025 Forms W-2,"Wage and Tax Statement," with the Social Security Administration and provide copies to their employees.
- 2025 Forms 1099-NEC, "Nonemployee Compensation," and related Form 1096, "Annual Summary and Transmittal of U.S. Information Returns," and provide copies to the nonemployees.
- 2025 Form 940, "Employer's Annual Federal Unemployment (FUTA) Tax Return." If an employer's undeposited tax is $500 or less, he or she can either pay it with the return or deposit it. If it is more than $500, he or she must deposit it.
- Form 941, "Employer's Quarterly Federal Tax Return," to report Medicare, Social Security and income taxes withheld in the fourth quarter of 2025.*
- 2025 Form 943, "Employer's Annual Federal Tax Return for Agricultural Employees," to report Social Security, Medicare and withheld income taxes.*
- 2025 Form 945, "Annual Return of Withheld Federal Income Tax," to report income tax withheld on all nonpayroll items, including backup withholding and withholding on pensions, annuities, IRAs, etc.*

March 2

Employers must file 2025 Form 1099-MISC, "Miscellaneous Income," reporting certain payments to certain persons, along with the related Form 1096, "Annual Summary and Transmittal of U.S. Information Returns," and provide copies to payment recipients.

March 16

Calendar-year partnerships and S corporations must file or extend 2025 tax returns. If the return isn't extended, this is also the last day for those types of entities to make 2025 contributions to pension and profit-sharing plans.

* *If an employer's tax liability is less than $2,500, he or she can pay it in full with a timely filed return.*

2026 TAX LAW CHANGES FOR INDIVIDUALS

Here's a sampling of some significant tax law changes going into effect this year:

- New charitable contribution deduction for nonitemizers for cash contributions up to $1,000 ($2,000 for married couples filing jointly)
- New 0.5% of adjusted gross income floor on charitable deduction for itemizers
- New 35% benefit limit on itemized deductions for taxpayers in the 37% tax bracket
- Reduced income thresholds at which the alternative minimum tax exemption begins to phase out (and a phaseout rate that's twice as fast as 2025's)
- New tax-advantaged Trump accounts to benefit children under age 18
- Increase in tax-free 529 plan withdrawal limit for qualified elementary and secondary school expenses to $20,000 (from $10,000 for 2025)
- New requirement that higher-income taxpayers' catch-up contributions to employer-sponsored retirement plans must be treated as post-tax Roth contributions

- Elimination of certain energy-efficiency credits for homeowners
- Wider income ranges over which the Section 199A qualified business income (QBI) deduction limitations phase in, potentially allowing larger deductions for some pass-through entity owners.
- New minimum QBI deduction of $400 for taxpayers who materially participate in an active trade or business if they have at least $1,000 of QBI from it

Contact us to discuss how these or other changes might affect you. ■