

Spaceports Treated Like Airports for Tax-Exempt Bond Financing

- **New Eligibility Under §142(a)(1):**
- "Airports and spaceports" now qualify for tax-exempt private activity bonds
- Applies to obligations issued after July 4, 2025
- **Qualified Spaceport Uses:**
- Manufacturing, assembly, or repair of spacecraft/space cargo
- Flight control, launch/reentry operations
- Crew/cargo transfer to/from spacecraft
- **Definition Alignment:**
- Uses definitions from 51 U.S.C. §50902 (e.g., "spacecraft," "launch site")
- **Key Provisions:**
- No public-use requirement for spaceports
- Ground leases from U.S. government treated as ownership by gov't entity
- Industrial parks exclusion waived for manufacturing/assembly activities
- Federal use of facilities (e.g., rent/fees) does not disqualify bonds
- **Effective Date:**
- Applies to bonds issued after July 4, 2025

Enhanced Employer-Provided Child Care Credit (§45F)

- **Increased Credit Rates:**
 - **40%** of qualified child care expenses
 - **50%** credit for **eligible small businesses**
 - **10%** credit for resource & referral services (unchanged)
- **Higher Annual Credit Caps:**
 - **\$500,000** for most businesses
 - **\$600,000** for eligible small businesses
- **Indexed for inflation starting in 2027** (base year: 2025)
- **Eligible Small Business Definition:**
 - Meets **§448(c)** gross receipts test with **5-year** lookback
 - **2025 threshold: \$31 million** in avg. annual gross receipts

Permanent Expansion of Opportunity Zones (OZs)

- **Permanent OZ Renewal:**
- **Sunset repealed** - capital gain deferrals now **indefinite**
- **New 10-year OZ designation cycle** begins **July 1, 2026** (every 10 years)
- **Revised Eligibility:**
- **“Low-income community” =**
 - Median income $\leq 70\%$ of area median, or
 - Poverty rate $\geq 20\%$ + income $\leq 125\%$ of area median
- **Contiguous tract rule eliminated**
- **Puerto Rico special rule repealed after Dec 31, 2026**

Permanent Expansion of Opportunity Zones (OZs)

- **Enhanced Tax Benefits:**
- **5-year hold:** 10% basis step-up (30% for rural OZ funds)
- **10-year hold:** Basis = FMV at sale or after 30 years
- **New: Qualified Rural Opportunity Funds (QROFs):**
- $\geq 90\%$ of assets in rural OZ property
- Rural = $< 50,000$ population + not adjacent to urbanized area
- **50% basis of existing rural structures** counts toward improvement test
- **Expanded Transparency & Reporting:**
- **Annual IRS reports required from funds/investors**
 - Asset values, business types (NAICS), job/housing stats
 - Investor-level acquisition/disposition data
- **Treasury must publish annual OZ impact reports**
- **Effective Dates:**
- **Structural & reporting rules:** July 4, 2025
- **Most investment-related rules:** After Dec 31, 2026

Example

- **Investor Profile:**
- **Investor:** Individual
- **Investment Date:** March 1, 2027
- **Capital Gain Reinvested:** \$500,000 (from stock sale)
- **Investment Target:** Qualified Rural Opportunity Fund (QROF) → rural OZ housing
- **Holding Period:** 10 years

Example

- **New OZ Benefits Applied**
- **Capital Gain Deferral**
- **\$500,000 deferred indefinitely**
- **Tax due at earlier of:**
 - Sale of OZ investment
 - Dec 31, 2032 (5-year point; no 2026 sunset)

Basis Step-Ups

- **5-Year Rural Boost:**
 - **30% step-up** for QROF investments
 - $\$500,000 \times 30\% = \$150,000$ excluded
 - **Taxable deferred gain: \$350,000**
- **10-Year Exclusion:**
 - OZ investment grows to \$900,000
 - **\$400,000 gain fully tax-free**

New Markets Tax Credit (NMTC) – Permanently Extended

- **NMTC Made Permanent**
- Amends §45D to eliminate the sunset previously set for 2025
- Authorizes **annual credit allocations beyond 2019** on a permanent basis
- **Carryover of Unused Allocations**
- **Unused credit authority** may now be **carried forward up to 5 years**
- **Excess from pre-2026 years** is treated as if allocated in 2025, ensuring alignment with the permanent regime
- **Incentive Purpose**
- Encourages **private investment in low-income communities**
- Applies to **qualified equity investments** in Community Development Entities (CDEs)
- **Effective Date**
- Applies to **calendar years beginning after December 31, 2025**

Example

- **Step 1: Apply 1% Floor**
- **1% of \$1,000,000 = \$10,000**
- **Contributions deductible only to extent > \$10,000**
- **Deductible amount: \$21,000 - \$10,000 = \$11,000**

- **Step 2: Apply 10% Cap**
- **10% of \$1,000,000 = \$100,000**
- **\$11,000 is within the cap → fully deductible**

- **Step 3: Carryforward of Disallowed Amount**
- **\$10,000 (under 1% floor) is eligible for carryforward**
 - **Year's total exceeded both floor and cap thresholds**
- **Carryforward available for up to 5 years, subject to future 1% floor & 10% cap**

New Limitation on Corporate Charitable Deductions

- Effective for Tax Years After 2025
- **Deduction Thresholds**
- **1% Floor:**
 - Deductions allowed only to the extent contributions exceed 1% of taxable income
- **10% Cap:**
 - Deductions may not exceed 10% of taxable income

Carryforward Rules

- **5-Year Carryforward** allowed for contributions exceeding the 10% cap
- **No Carryforward** for contributions disallowed only due to the 1% floor, unless:
 - The 10% cap was also exceeded in that year

Special Coordination with NOLs

- If both **charitable and NOL carryovers** exist:
 - The charitable carryover is reduced by the amount it would have reduced taxable income but for the NOL
 - The NOL carryover is increased by the same amount

Permanent Increase in Cover Over for Distilled Spirits

- **Key Change:**

- **Cover Over Rate Permanently Increased to \$13.25 per proof gallon**
- Replaces the previously **temporary rate** that was subject to periodic expiration

- **Jurisdictions Affected:**

- Applies to **federal excise tax transfers** to:
 - Puerto Rico
 - U.S. Virgin Islands

Effective Date:

- Applies to **distilled**

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2025

Tax-Exempt Fisheries Activities in Remote Native Villages

- **Expanded §501(a) Exempt Purposes:**
- **Fisheries-related activities in the Bering Sea and Aleutian Islands** now treated as **substantially related** to exempt nonprofit purposes
- Applies to entities identified in **§305(i)(1)(D)** of the Magnuson-Stevens Act
- **Qualifying Activities Include:**
- **Harvesting, processing, transportation, sales, and marketing** of fish and fish products
- Must occur in **designated statistical/reporting areas**

- **Wholly Owned Subsidiary Treatment:**
- **No income/gain recognized if:**
 - **Subsidiary's assets** are transferred to the nonprofit **within 18 months of enactment**
- **Post-transfer income is exempt from tax**
- **Effective Date:**
- **July 4, 2025**, and remains in effect for the duration of the **Western Alaska CDQ Program** under **§305(i)(1)**

Expanded Deduction for Native Alaskan Subsistence Whaling

- **Increased Deduction Limit:**
- IRC §170(n)(1) amended to increase the annual deduction cap
- From \$10,000 → \$50,000 for qualified **whaling-related out-of-pocket expenses**

- **Eligible Participants:**
- Individuals engaging in **Native Alaskan subsistence whaling** under recognized cultural and subsistence practices

- **Effective Date:**
- Applies to **tax years beginning after December 31, 2025**

Exception to PCM for Residential Construction Contracts

- **New PCM Exception (§460(e)(1)(B)):**
- **Residential construction contracts** entered into in tax years **after July 4, 2025** are **exempt from PCM**
- Applies to **regular tax and AMT** (per §56(a)(3))

- **Residential Construction Contract Definition:**
- **≥80% of total contract costs** must be for:
 - Building, improving, or installing integral components of **houses or apartments**
 - **Excludes** hotels/motels where over half of units are used on a **transient basis**
- Includes improvements **directly related** and **on-site** to dwelling units

Exception to PCM for Residential Construction Contracts

- **UNICAP Exemption Also Provided:**
- **Contract not subject to UNICAP if:**
 - **Estimated to be completed within 3 years**
 - **Taxpayer's average gross receipts \leq \$31M (3-year average, indexed under §448(c))**
- **Effective Date:**
- **Applies to contracts entered into in tax years beginning after July 4, 2025**

Expanded QSBS Gain Exclusion (IRC §1202)

- **Phased Exclusion Based on Holding Period (Post-July 4, 2025):**
 - **3 years:** 50% gain exclusion
 - **4 years:** 75% gain exclusion
 - **5+ years:** 100% gain exclusion
 - **Prior rule:** 100% exclusion **only after 5 years**
- **Increased Issuer Asset Cap:**
 - **Gross asset limit raised from \$50M → \$75M**
 - **Applies to stock issued after July 4, 2025**

Example

- **Scenario Overview**
 - **Investor: Jane**
 - **QSBS Acquired: August 1, 2026**
 - **Gain on Sale: \$2,000,000**
 - **Meets all §1202 requirements**
 - **No prior QSBS sales**
-
- **Exclusion Tiers (Post-July 4, 2025 Acquisitions)**
 - **3-Year Hold: 50% Exclusion**
 - **4-Year Hold: 75% Exclusion**
 - **5+ Year Hold: 100% Exclusion**

Example

- **Outcome 1: Sold on August 1, 2029 (3-Year Hold)**
- **Exclusion Applied: 50%**
- **Excludable Gain: \$1,000,000**
- **Taxable Gain: \$1,000,000**
 - **Tax Rate: 28% under §1202 + 3.8% NIIT (if applicable)**
- **Result: Jane pays tax on \$1,000,000 of gain**

Example

- **Outcome 2: Sold on August 1, 2031 (5-Year Hold)**
- **Exclusion Applied: 100%**
- **Excludable Gain: \$2,000,000**
- **Taxable Gain: \$0**
- **Result: Jane pays no federal tax on the \$2M gain**

Repeal of Lower Reporting Threshold – \$6050W Restored

- **Restores Original De Minimis Reporting Thresholds:**
- **Reporting required only if both are met:**
 - > \$20,000 in gross payments and
 - > 200 transactions
- **Repeals the \$600 single-transaction threshold introduced by the American Rescue Plan Act of 2021**
- **Effective Date:**
- **Applies to information returns for calendar years beginning after 2021**

Higher Reporting Threshold for Certain Non-Employee Payments

- **Updated Reporting Requirement - §6041(a):**
- **Threshold increased from \$600 → \$2,000**
- **Applies to payments made to non-employees (e.g., independent contractors)**

- **Inflation Adjustment - New §6041(h):**
- **Begins in calendar year 2027**
- **Adjusted annually based on cost-of-living index**
- **Rounded to the nearest \$10**

- **Effective Date:**
- **Applies to tax years beginning after December 31, 2025**

Expensing & Bonus Depreciation for Sound Recording Productions

- **§181 Election to Expense Costs:**
- **Newly eligible:** *Qualified sound recording productions*
- **Allows full deduction in year incurred**
- **Dollar Cap:**
 - \$150,000 per production, and
 - \$150,000 cumulative per year
- **No double deduction allowed (e.g., cannot also amortize)**
- **Qualified Sound Recording Defined:**
- **As per 17 U.S.C. §101**
- **Must be produced and recorded in the U.S.**

Restored TRS Asset Limit for REITs - §856(c)(4)(B)(ii)

- **Key Change:**
- **TRS asset threshold increased from 20% → 25% of a REIT's total assets**
- **Purpose:**
- **Expands flexibility for Real Estate Investment Trusts (REITs)**
- **Allows greater use of Taxable REIT Subsidiaries (TRSs) for ancillary operations**
- **Effective Date:**
- **Applies to taxable years beginning after December 31, 2025**

Key Energy & Environmental Tax Changes - Summary of Terminations & Restrictions

- **1. Termination of Qualified Commercial Clean Vehicles Credit (\$45W)**
 - **Ends for vehicles acquired after September 30, 2025**
 - **Original expiration was December 31, 2032**
- **2. Termination of Energy Efficient Commercial Buildings Deduction (§179D)**
 - **No deduction for property whose construction begins after June 30, 2026**

Key Energy & Environmental Tax Changes – Summary of Terminations & Restrictions

- **3. Termination of Cost Recovery for Energy Property (§168(e)(3)(B)(vi))**
 - Eliminates 5-year recovery for **solar/wind** energy property
 - Applies to **construction beginning after December 31, 2024**
- **4. Modifications to Zero-Emission Nuclear Power Credit (§45U)**
- **No credit if taxpayer is:**
 - **Specified foreign entity (tax years after July 4, 2025)**
 - **Foreign-influenced entity (tax years after July 4, 2027)**

Key Energy & Environmental Tax Changes – Summary of Terminations & Restrictions

- **5. Termination of Clean Hydrogen Production Credit (§45V)**
- **Credit ends** for facilities beginning construction **after December 31, 2027**
- **6. Termination & Restrictions on Clean Electricity Production Credit (§45Y)**
- **No credit** for wind/solar facilities:
 - **Placed in service after Dec 31, 2027**, if construction begins **after July 4, 2026**
- **No credit** for facilities with:
 - **Prohibited foreign entity assistance** (construction after **Dec 31, 2025**)
 - **Foreign-influenced taxpayer status** (tax years after **July 4, 2025**)

Key Energy & Environmental Tax Changes - Summary of Terminations & Restrictions

- **7. Termination & Restrictions on Clean Electricity Investment Credit (§48E)**
- **Ends for wind/solar facilities:**
 - Placed in service after Dec 31, 2027 (if construction starts after July 4, 2026)
- **Exceptions: Still applies to energy storage**
- **Foreign Restrictions & Recapture:**
 - No credit for projects with foreign entity assistance (construction after Dec 31, 2025)
 - Full recapture if payment made to prohibited foreign entity within 10 years
- **Other Adjustments:**
 - Denial of credit for leased solar/wind
 - Stricter domestic content thresholds after June 16, 2025

Advanced Manufacturing Production Credit (\$45X) – Phase-Out & Restrictions

- **Restrictions on Foreign Influence**
- **No credit allowed** for taxable years **beginning after July 4, 2025** if:
 - Property includes **material assistance** from a **prohibited foreign entity**
 - The taxpayer is a **specified foreign entity** or **foreign-influenced entity** (as defined in §7701(a)(51)(B) and (D))

Additional Modifications

- **Metallurgical coal** added to the list of applicable critical minerals
- Expands definition of **battery modules** to include **essential energy collection equipment**
- Clarifies credit treatment for **integrated components** sold **within the same facility**
- **Effective Date**
- Applies to **taxable years beginning after July 4, 2025**

Advanced Manufacturing Production Credit (\$45X) – Phase-Out & Restrictions

- **Phase-Out of Credit for Critical Minerals**
- Applies to critical minerals (excluding metallurgical coal):
 - 2031: Credit reduced to 75%
 - 2032: Credit reduced to 50%
 - 2033: Credit reduced to 25%
 - After 2033: Credit eliminated (0%)
- Termination Dates for Specific Components
- **Wind energy components:** No credit for components produced and sold after Dec 31, 2027
- **Metallurgical coal:** No credit for coal produced after Dec 31, 2029

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Clean Fuel Production Credit (\$45Z) – Extension & Modifications

- **Extension of Credit:**
- **Extended through December 31, 2029.**
(Original expiration was December 31, 2027)
- **New Eligibility & Restrictions (Effective After 2025):**
- **Domestic Feedstocks Only:**
 - Fuel must be made exclusively from feedstocks produced in the U.S., Mexico, or Canada
- **Prohibition on Negative Emission Rates:**
 - No fuel emission rate may be less than zero (via rounding)
 - **Exception:** Negative rates allowed for animal manure-derived fuels
- **Exclusion of Indirect Land Use Changes:**
 - Emission rates must exclude emissions from indirect land use
- **Animal Manure Emissions Treatment:**
 - Separate rates required for dairy, swine, poultry manure
 - These may have negative emissions rates

Tightened Rules for De Minimis Entry Privilege (Tariff Act §321)

- **New Civil Penalties for Misuse:**
- Imposed for improper use of de minimis entry to **evade customs laws**
- **Penalty Amounts:**
 - Up to \$5,000 for the first violation
 - Up to \$10,000 for each subsequent violation
- **Repeal of Commercial Shipment Exception:**
- **Commercial shipments can no longer qualify for de minimis entry**
- **Closes loophole used to avoid duties on small-value business imports**
- **Effective Dates:**
- **Civil penalty: Applies 30 days after July 4, 2025**
- **Repeal of commercial shipment exception: Effective July 1, 2027**

Permanent Limitation on Excess Business Losses (\$461(l))

- **Permanent Extension:**
 - The temporary limitation, originally set to expire after 2028, is now made permanent
 - Applies to noncorporate taxpayers, including individuals, trusts, and estates
 - Updated Threshold Calculation:
 - **Base year for inflation adjustment updated:**
 - From 2017 → 2024
 - **Reference date for CPI indexing updated:**
 - From Dec 31, 2018 → Dec 31, 2025
 - **Threshold Amounts:**
 - **2025:**
 - \$313,000 (Single)
 - \$626,000 (Married filing jointly)
 - **2026 and beyond:**
 - Thresholds expected to be significantly lower due to revised indexing
- Effective Dates:* The permanent extension applies to taxable years beginning after December 31, 2026. The adjusted calculation thresholds apply to taxable years beginning after December 31, 2025

Revised Rules for Partner Payments - §707(a)(2) Clarification

- **Key Change to Statutory Language:**
- Section 707(a)(2) amended to replace:
 - "Under regulations prescribed" → "Except as provided"**Implications of the Change:**
- **Narrows regulatory discretion** by the IRS to recharacterize payments
- **Greater statutory clarity** on treatment of:
 - **Disguised sales**
 - **Guaranteed payments** to partners**Practical Effects on Partnerships:**
- **May limit IRS authority** to treat certain partner transactions as occurring with a non-partner
- **Impacts planning strategies** involving:
 - **Property contributions**
 - **Service compensation arrangements**
 - **Key Takeaway:**
- **Greater emphasis on statutory language over regulations** in determining tax treatment of payments between partnerships and partners
- **Effective Date:** Applies to services performed and property transferred after July 4, 2025

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- **Greater emphasis on statutory language over regulations** in determining tax treatment of payments between partnerships and partners
- *Effective Date:* Applies to services performed and property transferred after July 4, 2025

Example

- **Prior Law:**
- **IRS had broad authority to recharacterize such payments as:**
 - **Disguised sales or services**
 - **Non-partner transactions under regulatory discretion**
 - **New Law (Post-Amendment):**
- **"Under regulations prescribed..." → replaced with "Except as provided..."**
- **Limits IRS authority to recharacterize unless explicitly permitted by statute**

New 1% Excise Tax on Certain Remittance Transfers - §4475

- **Exemptions from the Tax:**
- **Transfers funded by:**
 - **Withdrawals from U.S. financial institution accounts**
 - **U.S.-issued debit or credit cards**

Definitions:

- **Uses definitions from the Electronic Fund Transfer Act (15 U.S.C. §1693o-1(g)):**
 - "Remittance transfer"
 - "Remittance transfer provider"
 - "Sender"
- **Effective Date:**
- **Applies to transfers made after December 31, 2025**

Enforcement & Limitation Provisions - Employee Retention Credit (ERC/ERTC)

- **Claim Limitation**
- No ERC claims or refunds allowed **after July 4, 2025**, unless filed on or before **January 31, 2024**
- **Due Diligence Penalty for COVID-ERTC Promoters**
- **\$1,000 per failure** for providing ERC-related aid or advice without proper due diligence (similar to §6695(g))
- **Who Is a COVID-ERTC Promoter?**
- Meets any of the following:
 - Charges fees based on ERC refund/credit and has **>20%** of gross receipts from ERC services
 - Derives **>50%** of gross receipts from ERC services
 - Has **>20%** from ERC and **>\$500,000** in ERC revenue

Enforcement & Limitation Provisions - Employee Retention Credit (ERC/ERTC)

- **Extended Assessment Period**
- ERC-related assessments remain open for **at least 6 years** from the latest of:
 - Original return date
 - Deemed filing date (§6501(b)(2))
 - Date credit or refund was claimed
 - **Coordination with Wage Deductions**
- If ERC is disallowed, the period to amend deductions related to ERC wages remains open **as long as the ERC assessment period**
- **Penalty Expansion**
- The **§6676 20% penalty** for erroneous refunds now applies to **employment taxes**, not just income tax
- **Effective Dates**
- **Penalties and enforcement rules:** Apply to aid or advice **after July 4, 2025**
- **Claim limitations and assessment extensions:** Apply **after July 4, 2025**

NFP and Misc

Excise Tax Changes - Private
College & University
Investment Income (\$4968)

- **New Tiered Excise Tax Rates**

- 1.4% for student-adjusted endowment: \$500,000-\$750,000
- 4% for student-adjusted endowment: \$750,000-\$2 million
- 8% for student-adjusted endowment: Over \$2 million

- **Applicable Institutions Must:**

- Have at least 3,000 tuition-paying students
- Have more than 50% of students located in the U.S.
- Not be a state college or university
- Have a student-adjusted endowment \geq \$500,000

Excise Tax Changes - Private College & University Investment Income (\$4968)

- Definition - Student-Adjusted Endowment
- = FMV of non-exempt-use assets ÷ full-time equivalent students
- Expanded Net Investment Income Includes:
- Interest on student loans made by the institution or related entities
- Federally subsidized royalty income from intellectual property developed with federal funds
- Treatment of Related Organizations
- Income and assets of related organizations included, unless:
 - Not controlled by the institution
 - Assets are not intended for the institution's benefit
- Reporting Requirements
- Must report:
 - Number of tuition-paying students
 - Total student count used for endowment calculation
- Effective Date
- Applies to tax years beginning after December 31, 2025

Expansion of Excise Tax on Excess Compensation - \$4960

- **Key Change: Broadened Definition of "Covered Employee"**
- **Now includes:**
 - Any current employee of a tax-exempt organization (or predecessor)
 - Any former employee who was employed in any tax year after December 31, 2016
 -
- **Purpose of the Amendment**
- **Ensures 21% excise tax on compensation > \$1 million applies to:**
 - A broader range of individuals, including certain former employees
 - Reduces planning opportunities to avoid tax by reclassifying or separating service

Task Force on the Replacement of IRS Direct File

- **Purpose of the Task Force**
- **Evaluate alternatives** to the IRS Direct File program
- Propose a **replacement system** focusing on public-private partnerships
- **Key Reporting Requirements (Due 90 Days After July 4, 2025):**
- **Cost analysis of:**
 - Expanding partnerships that offer **free filing to up to 70% of taxpayers** (based on AGI)
- **Taxpayer preference** assessment:
 - **Government-run vs. private-sector** free filing options
- **Feasibility study** of new models:
 - Emphasis on **simplicity, consistency, and user-focused features**
- **Cost estimates** for new direct e-file systems:
 - Tailored by **income level and return complexity**
 - **Funding**
- **\$15 million** appropriated for FY 2026
- Available through **September 30, 2026**

Permanent Extension of TCJA Reduced Tax Rates

- **Sunset Clause Removed**
- **TCJA individual tax rate reductions** (originally set to expire after 2025) are now permanent
- The phrase "before January 1, 2026" is struck from the statute
- **Permanent Rate Structure**
- The seven tax brackets (10%, 12%, 22%, 24%, 32%, 35%, 37%) are retained permanently
- Applies to individuals, trusts, and estates
- **Inflation Adjustment Clarification**
- **Brackets remain indexed for inflation**
- **Base year for indexing:**
 - 10% and 12% brackets (individuals): Now based on 2016, not 2017
 - 10% bracket (trusts and estates): Also uses 2016 as base year
- **Effective Date**
- Applies to tax years beginning after December 31, 2025

Permanent Extension of Increased Standard Deduction

- **Permanent Extension**
- **Sunset clause removed:** The increased standard deduction under TCJA is now permanent
- Applies to **taxable years beginning after December 31, 2025**

- **Enhanced Deduction Amounts (Effective 2025)**
- **Single filers:** Increased from \$15,000 → \$15,750
- **Married filing jointly:** Increased from \$30,000 → \$31,500
- **Head of household:** Increased from \$22,500 → \$23,625

- **Inflation Adjustments**
- All standard deduction amounts will be **indexed for inflation**
- Indexing applies for **tax years beginning after 2025, using 2024 as the base year**

Permanent Repeal of Personal Exemptions + Temporary Senior Deduction

- **Permanent Repeal of Personal Exemptions**
- TCJA suspension of personal exemptions is now permanent
- No return of personal exemption deduction beginning in 2026 and beyond
- **Temporary Senior Deduction (2025-2028 Only)**
- **Additional \$6,000 deduction for taxpayers age 65 or older**
- **Added to standard deduction – not a separate exemption**
- **Available for tax years 2025 through 2028**
- **Phaseout Rules**
- Deduction phases out at 6% of MAGI above:
 - \$75,000 for single filers
 - \$150,000 for married filing jointly
- **Must file jointly to claim the deduction for both spouses**
- **Administrative Requirement**
- **Social Security number required on return for eligible senior(s)**
- **Omission treated as a math error – IRS may disallow the deduction**

Enhanced & Permanent Child Tax Credit (CTC)

- **1. Permanency of the Credit**
 - CTC expansion made **permanent** (no expiration after 2025)
 - Also permanent:
 - **\$500** credit for other dependents
 - **Phase-out thresholds:**
 - \$200,000 (single)
 - \$400,000 (married filing jointly)
- Increased Credit Amount
- **Maximum per qualifying child** under age 17:
 - \$2,200 beginning **2025**
 - Indexed for inflation **after 2025**

Enhanced & Permanent Child Tax Credit (CTC)

- **3. Refundable Portion**
- **\$1,700** refundable for 2025
- Inflation-adjusted in future years
- Refundable even if no tax liability (up to limit)
- **4. Social Security Number (SSN) Requirement**
- Must provide valid **SSN** for:
 - **Each qualifying child**, and
 - **At least one spouse** (if joint return)
- SSNs must be issued **by the return due date**
- **5. IRS Enforcement Mechanism**
- Incorrect/missing SSNs treated as a **math error**
- IRS can **automatically disallow** the credit – no formal audit required

Enhanced & Permanent Estate and Gift Tax Exemption

- **1. Increased Basic Exclusion Amount (BEA)**
 - Raised to \$15 million per person starting in 2026
 - Would have reverted to ~\$7 million in 2026 without this change
 - Indexed for inflation from 2025 forward
- **2. Permanent Extension**
 - **Sunset clause repealed**
(Originally, the TCJA expansion was set to expire after 2025)
 - High exemption amounts are now permanently preserved
- **3. Applicability**
 - Applies to:
 - Estates of decedents dying after December 31, 2025
 - Gifts made after that same date

Permanent Extension & Modification of AMT Relief

- **1. Permanent AMT Exemption**
- The increased Alternative Minimum Tax exemption amounts enacted under the Tax Cuts and Jobs Act (TCJA) are **made permanent**.
- Previously scheduled to expire after 2025, the exemption amounts will now **continue indefinitely**.
- **2. AMT Exemption Amounts**
- **Exemption amounts remain in place** as increased by the TCJA:
 - For 2025, the exemption is \$109,400 for married couples filing jointly and \$70,300 for single filers.
 - These base amounts will continue to be **adjusted annually** for inflation using **calendar year 2017** as the base year.
 - **3. Phaseout Threshold Modifications**
- The **phaseout threshold** (the income level at which the AMT exemption begins to be reduced) for **married joint filers and surviving spouses** is:
 - **\$1,000,000** starting in 2026, replacing the 2025 level of \$1,252,700.
 - This new threshold will be **indexed for inflation annually**, using **calendar year 2025** as the new base year.
- **No changes** are made to the **phaseout thresholds for other taxpayers** (e.g., single or head-of-household filers); those continue to be adjusted for inflation based on the **2017** base year.
- **4. Increased Phaseout Rate**
- The **rate at which the exemption phases out** is increased from **25% to 50%**.
 - This means once a taxpayer's income exceeds the threshold, the exemption is reduced **twice as quickly**.
 - As a result, **more AMT liability will apply at lower income levels above the threshold**.
 - **5. Effective Date**
- These changes apply to **taxable years beginning after December 31, 2025**

Example

- **Scenario Summary**
- **Filing status:** Married Filing Jointly
- **Home purchase year:** 2026
- **Mortgage loan:** \$400,000 (acquisition debt)
- **Annual mortgage interest paid:** \$14,000
- **PMI premiums paid:** \$2,500
- **AGI:** \$100,000

Example

- **Updated Tax Treatment (Effective for Tax Years Beginning After 12/31/2025)**
- **1. Mortgage Interest Deduction**
- The loan balance of \$400,000 is well below the \$750,000 limit for acquisition debt.
- Therefore, 100% of the \$14,000 in mortgage interest is deductible, assuming the couple itemizes deductions.
- **2. Deduction for PMI Premiums**
- Under the new law, PMI is treated as qualified residence interest starting in 2026.
- \$2,500 in PMI premiums is deductible as part of mortgage interest.
- No AGI-based phaseout applies under the new provision (unlike prior temporary rules that phased out PMI deductions above \$100,000 AGI).
- Total deductible mortgage-related interest = \$14,000 (interest) + \$2,500 (PMI) = \$16,500

Permanent Limitation on Personal Casualty Losses (TCJA Rule)

- What Changed:
- The Tax Cuts and Jobs Act (TCJA) had restricted the deduction for **personal casualty losses** to only those arising in **federally declared disaster areas**. This was originally a **temporary measure**, set to expire after 2025.
- What the OBBB Does:
- **Makes the TCJA limitation permanent:** Casualty losses outside federally declared disasters will **not** be deductible.
- **Applies to all tax years beginning after December 31, 2025.**

Expansion of Qualified Disaster-Related Casualty Loss Rules

- Continuation and Enhancement of Prior Relief:
- The OBBB **extends and modifies** the relief framework first introduced under the **Taxpayer Certainty and Disaster Tax Relief Act of 2020**. Under this enhanced provision, if your personal casualty loss arises from a **qualified disaster**, the following **favorable rules** apply:
 - Deduction Allowed Even Without Itemizing:
 - You **do not** need to itemize deductions to claim the loss.
 - AGI Limitation Removed:
 - The usual rule requiring losses to **exceed 10% of Adjusted Gross Income (AGI)** is **suspended** for qualified disaster losses.
 - Larger Flat Reduction:
 - The **per-event reduction** is increased to **\$500** (rather than the standard \$100).

Broadened Definition of "Qualified Disaster"

- **Federal Declarations:**
- Still includes **Presidential disaster declarations** under the **Robert T. Stafford Act**.
- **New Addition - State-Declared Disasters:**
- Now also includes disasters:
- Declared by a **state governor** or the **Mayor of D.C.**,
- **Recognized by the Secretary of the Treasury** as causing significant damage.

Expansion of Qualified Disaster-Related Casualty Loss Rules

- **Eligibility Time Frame**

- To qualify for these enhanced rules:
- The **incident period** must begin **on or after December 28, 2019**, and
- **End before September 2, 2025**, and
- Be declared a major disaster **before September 2, 2025**.
-

- **Effective Date**

- Applies to **tax years beginning after December 31, 2025**.

Permanent Termination of Miscellaneous Itemized Deductions

- TCJA Provision Made Permanent:
- The **temporary suspension** of miscellaneous itemized deductions under the **Tax Cuts and Jobs Act (TCJA)** – originally effective **2018 through 2025** – is now **permanently extended**. The expiration clause in **IRC §67(g)** is eliminated.
- What This Means:
 - Taxpayers will **no longer be able to deduct** any itemized expenses that were previously subject to the **2% of AGI floor**, including:
 - **Unreimbursed employee business expenses**
 - **Tax preparation fees**
 - **Investment advisory fees**
 - **Union dues and professional subscriptions**
 - **Certain legal fees**
 - These deductions **remain permanently disallowed** starting in 2026.

Preservation and Expansion of Educator Expense Deduction

- Above-the-Line Deduction Preserved:
- The educator expense deduction remains available above the line, meaning it can be claimed regardless of whether the taxpayer itemizes.
- For 2025, the cap is \$300 per eligible educator.
- Eligible educators include:
 - Teachers
 - Instructors
 - Counselors
 - Principals
 - Aides
 - Coaches and athletic directors (if they perform instruction)
- Expanded Scope of Deductible Expenses:
 - Under the revised law, "qualified educator expenses" now include:
 - Instructional activity-related expenses, even outside the classroom
 - Supplies for health or physical education, even if non-athletic
 - Expenses incurred by coaches or interscholastic sports administrators (e.g., refereeing supplies, whistle, team materials)
- This broader definition reflects the diverse roles educators play in modern school environments.

New Itemized Deduction for Educators (Over the Cap)

- **Post-2025 Itemized Deduction for Excess Expenses:**
- If an eligible educator's qualified expenses **exceed the \$300 cap**, the **excess can be claimed as an itemized deduction** after 2025.
- **Example:**
 - An eligible educator spends \$600 in qualified expenses in 2026.
 - They deduct \$300 above the line.
 - The remaining \$300 may be deducted as an itemized deduction, not subject to the 2% AGI floor (because that rule has been repealed for educators only).
 - This ensures that highly committed educators can still gain tax relief for higher classroom and coaching expenses, even if itemization is required.

Effective Date

- These changes apply to **taxable years beginning after December 31, 2025.**

Limitation on Tax Benefit of Itemized Deductions (Post-2025)

- **Overview:**
 - Reinstates a modified version of the **Pease limitation** starting **after 2025**.
 - Targets **high-income taxpayers** by limiting the benefit of itemized deductions.
- **New Formula:**
 - **Reduction = $2/37 \times$ lesser of:**
 - Total itemized deductions, or
 - Amount by which taxable income (with itemized deductions added back) exceeds the 37% bracket threshold
- **Key Details:**
 - Approximate haircut: **~5.4%** reduction in itemized deductions for top earners.
 - Applies **after all other limits** on specific deductions.
 - **Excludes the Qualified Business Income (QBI) deduction (§199A).**
- **Effective Date:**
 - Tax years beginning after December 31, 2025

Example

- **Scenario Summary:**
- **Filing Status:** Single
- **Taxable Income (before deductions):** \$726,350
- **Itemized Deductions Claimed:** \$60,000
- **§199A Deduction:** \$0
- **37% Bracket Threshold (2026):** \$626,350

Example

- **Limitation Calculation:**
- **Excess Income Over Threshold:**
 $\$726,350 - \$626,350 = \$100,000$
- **Lesser of Deductions or Excess:**
 $\text{Min}(\$60,000, \$100,000) = \$60,000$
- **Limitation Reduction:**
 $2/37 \times \$60,000 = \$3,243.24$
- **Results:**
- **Allowed Deductions:** $\$60,000 - \$3,243.24 = \$56,756.76$
- **Final Taxable Income:** $\$726,350 - \$56,756.76 = \$669,593.24$

Example

- **Key Takeaway:**

- High earners lose ~5.4% of itemized deductions under the new rule.**

- QBI deduction (§199A) remains fully unaffected.**

Extension and Modification of Qualified Transportation Fringe Benefits

- **Provision Summary (Post-2025):**
- **Bicycle Commuting Reimbursements:**
 - *Remain taxable*
 - Not included in the definition of “**qualified transportation fringe**” benefits under §132(f)
- **Other Qualified Transportation Fringe Benefits:**
 - Inflation adjustments now calculated using **1997** as the base year (instead of 1998)
 - Affects benefit limits for:
 - Transit passes
 - Qualified parking
 - Commuter highway vehicles

Effective Date:

- Applies to **taxable years beginning after December 31, 2025**

Extension & Modification of Moving Expense Deduction Limitation

- **Key Provisions (Post-2025):**

- **Permanent Suspension of:**

- Deduction for moving expenses (§217)
- Exclusion for employer-provided moving expense reimbursements
- TCJA's temporary suspension becomes **permanent**

- **Exceptions Preserved or Added:**

- **Active-Duty Military:** Still eligible if moving due to military orders
- **Intelligence Community Members:** New exception for those relocating due to assignment changes (starting in 2026)

Effective Date:

Tax years beginning after December 31, 2025

Extension & Modification of Limitation on Wagering Losses

- **New Limitations Introduced:**
- **Deduction Cap:**
 - **Wagering losses now limited to 90%** of the amount incurred in the tax year
 - Tightens the prior rule which allowed full deduction up to the amount of winnings
- **Gain Limitation Still Applies:**
 - **Losses only deductible to the extent of wagering gains**
 - **No net wagering loss can offset other income**
- **Expanded Definition of Losses:**
- **Now Includes:**
 - **All deductions incurred in carrying on a wagering transaction**
 - Codifies and **broadens** IRS interpretation (e.g., travel, fees, etc.)
- **Effective Date:**
Applies to taxable years beginning after December 31, 2025

Example

Example 1 - No Change in Outcome

- **Status:** Single
- **Winnings:** \$50,000
- **Losses (incl. travel/admission):** \$60,000

| Rule | Deductible Loss | ☹ | Taxable Winnings |
|-----------|---|---|------------------|
| Pre-2026 | \$50,000 | | \$0 |
| Post-2025 | $\text{Min}(\$50,000, 90\% \text{ of } \$60,000 = \$54,000) \rightarrow \$50,000$ | | \$0 |

Example

Example 2 - New Cap Applies

- Winnings: \$50,000
- Losses: \$52,000

| Rule | Deductible Loss | Taxable Winnings |
|-----------|---|------------------|
| Pre-2026 | \$50,000 | \$0 |
| Post-2025 | $\text{Min}(\$50,000, 90\% \text{ of } \$52,000 = \$46,800) \rightarrow \$46,800$ | \$3,200 |

Extension & Enhancement of ABLE Account Contribution Limits

Permanent Extension

The temporary expansion of ABLE account contribution limits for employed individuals with disabilities is made permanent (originally set to expire Jan 1, 2026).

Above-Standard Contributions Allowed

Eligible individuals can continue contributing more than the annual gift tax exclusion (e.g., in addition to the standard \$17,000 limit for 2023, extra contributions are allowed based on the individual's earnings).

Inflation Adjustment Update:

- The base year used to calculate inflation for the gift tax exclusion is changed from 1997 to 1996 (Section 2503(b)).

Effective Date:

- Applies to contributions made after December 31, 2025

Saver's Credit - Extension & Expansion for ABLE Account Contributions

Qualified Contributions:

- Beginning **after 2025**, the Saver's Credit includes:
 - **ABLE account contributions** made by an eligible individual to **their own ABLE account**.
- For **tax years before 2027**, it also includes:
 - **Traditional IRA contributions**
 - **401(k), 403(b), 457(b) elective deferrals**
 - **Voluntary contributions** to qualified retirement plans

Limitation After 2026:

- **Only ABLE account contributions** (by the designated beneficiary) qualify for the credit beginning in **2027 and beyond**

Increased Credit Amount:

- **Credit increased from \$2,000 → \$2,100**
- Effective for **tax years beginning after Dec. 31, 2026**

SECURE 2.0 Coordination Rule Repealed:

- **Reinstates broader eligibility** for ABLE-related Saver's Credit
- **Repeals prior limitation** under SECURE 2.0

Permanent Extension: 529 → ABLE Account Rollovers

- **What's Changed?**

Prior Law: Allowed **tax-free rollovers** from 529 plans to ABLE accounts **only through 2025**

New Law: **Permanently removes** the expiration date by striking "before January 1, 2026" from the Code

Key Implications:

- Families can **permanently redirect unused 529 funds** to support a **beneficiary with disabilities**
- Rollovers must comply with **ABLE annual contribution limits**

Effective Date:

- Applies to **tax years beginning after December 31, 2025**

Permanent & Expanded Tax Relief for U.S. Armed Forces

- **Permanent Extension:**
- Removes expiration for tax exclusion related to service in the **Sinai Peninsula**
- Sinai treatment is **now permanent** (no more “applicable period” limitation)

Expansion to New Regions (Effective Jan 1, 2026):

- Adds **Kenya, Mali, Burkina Faso, and Chad** to the list of **qualified hazardous duty areas**
- Applies **only** during periods of:
 - **Hostile fire pay** or
 - **Imminent danger pay** (per Title 37, U.S. Code)

Conforming Changes:

- **Subsections (c) and (d)** of original statute (PL 115-97 §11026) **repealed**
- Ensures consistent and **permanent application** of military tax benefits

Permanent Tax Relief for Discharged Student Loans

- **Permanent Exclusion from Gross Income:**
- Applies to student loan discharges due to:
 - Death of the borrower
 - Total and permanent disability

Covered Loans:

- Federal and state student loans (as defined in IRC §108(f)(2))
- Private education loans (under Consumer Credit Protection Act §140(a))

Expired Provision Not Extended:

- Temporary exclusion under §108(f)(5) (available 2021-2025) for broader loan types **not extended**
- After 2025, only discharges for death/disability remain tax-exempt

Compliance Requirements:

- SSN must be included on return for year of discharge
- IRS may treat omission as clerical error, not requiring audit

Effective Date:

Applies to discharges after December 31, 2025

Limitation on Individual Deductions for SALT (State & Local Taxes)

- **SALT Deduction Cap Revisions (Effective 2025):**
 - 2025: \$40,000 MFJ/Single (\$20,000 MFS)
 - 2026: \$40,400 MFJ/Single (\$20,200 MFS)
 - 2027-2029: Indexed annually at 101%
 - 2030 and beyond: Reverts to \$10,000 (\$5,000 MFS)
- **Income-Based Phaseout (Before 2030):**
- Deduction reduced by 30% of MAGI exceeding thresholds:
 - 2025: \$500,000 (\$250,000 MFS)
 - 2026: \$505,000 (\$252,500 MFS)
 - 2027 and beyond: Indexed annually at 101%
- Minimum deduction floor: \$10,000
- **MAGI Threshold for \$10,000 SALT Cap:**
 - 2025: MAGI > \$600,000 (\$300,000 MFS)
 - 2026: MAGI > \$606,333 (\$303,167 MFS)
- **MAGI Definition:**
- Adjusted Gross Income (AGI) plus exclusions under §§ 911, 931, and 933

No Tax on Tips (2025-2028)

- **New Deduction for Tips (IRC §224):**
- Up to **\$25,000** of qualified tip income may be deducted annually (2025-2028)
- Deduction is in **addition to the standard deduction** (no itemizing required)
- Applies to **employees and independent contractors** in eligible tip-receiving occupations
- **Income Phaseout:**
- Phaseout begins at:
 - \$300,000 MAGI (MFJ)
 - \$150,000 MAGI (Others)
- Reduced by \$100 for every \$1,000 above threshold
- Fully phased out at:
 - \$550,000 MAGI (MFJ)
 - \$400,000 MAGI (Others)

No Tax on Tips (2025-2028)

- **Qualified Tips Defined:**
- **Cash or charged tips** in occupations that regularly received tips as of 12/31/2024
- Must be **voluntary, not negotiated**, and determined by the payor
- Excludes tips from **specified service trades or businesses** (under §199A rules)
- For nonemployees: deduction allowed **only if gross receipts exceed allocable deductions**
- **Other Requirements:**
- Must file **joint return** if married to claim the deduction
- Tips must be reported (e.g., on **Form 4137**)
- **Social Security number required** on tax return
- **IRS to publish list of eligible occupations** by October 2, 2025

Extension of Tip Credit to Beauty Services

- **Expansion of Employer Tip Credit (IRC §45B):**
- Tip credit now applies to tips received in the following beauty-related services:
 - **Barbering and hair care**
 - **Nail care**
 - **Esthetics**
 - **Body and spa treatments**
 - **Withholding & Reporting Adjustments:**
- Employers and third-party settlement organizations must:
 - **Report designated cash tips separately**
 - **Include the recipient's occupation** in reporting
 - **IRS Guidance Updates:**
- **Withholding tables** will be updated to reflect the new **individual tip deduction**

Example

- **Scenario:**
- **Filer:** Single
- **Occupation:** Waiter in a restaurant (customarily tipped)
- **Income:**
 - Wages: \$35,000
 - Reported cash tips: \$20,000
 - **MAGI:** \$155,000
- Tips qualify (cash, voluntary, not from a specified service trade/business)
- SSN provided

No Tax on Overtime (2025-2028)

- **New Deduction for Overtime Pay (IRC §225):**
- Deduction for "qualified overtime compensation"
- Available in addition to the standard deduction (non-itemizers eligible)
- Applies to employees receiving overtime pay under FLSA Section 7
- **Deduction Limits:**
- \$25,000 for joint filers
- \$12,500 for all others
- **Income-Based Phaseout:**
- Begins at:
 - \$300,000 MAGI (MFJ)
 - \$150,000 MAGI (Others)
- Phases out by \$100 per \$1,000 over threshold
- Fully phased out at:
 - \$550,000 MAGI (MFJ)
 - \$275,000 MAGI (Others)

Example

- **Step 1: Apply Deduction Limits**
- **Max deduction: \$25,000**
- **MAGI exceeds threshold by \$10,000**
→ **Phaseout: $10 \times \$100 = \$1,000$**
- **Step 2: Calculate Final Deduction**
- **Base deduction (limited to actual OT received): \$20,000**
- **Minus phaseout: \$1,000**
- **Allowed deduction: \$19,000**
- **Step 3: Tax Return Impact**
- **Taxpayer deducts \$19,000 for qualified overtime**
- **Deduction is in addition to the standard deduction**
- **Provides significant benefit—even for higher-income earners**

No Tax on Car Loan Interest (2025-2028)

- **Deduction Overview:**
- Deduction for **interest on personal-use car loans**
- Applies **even if taxpayer does not itemize**
- Effective for **tax years 2025-2028**
- **Qualified Interest & Vehicle Requirements:**
- Loan must be used to purchase a **new personal-use vehicle**
- **Vehicle must:**
 - Begin original use with taxpayer
 - Be **assembled in the U.S.**
 - Have **2+ wheels** and **GVWR < 14,000 lbs**
 - Be **secured by a first lien**
 - Include cars, SUVs, pickups, vans, motorcycles
- **Excluded vehicles:** fleets, commercial use, leases, salvage/scrap title

No Tax on Car Loan Interest (2025–2028)

- **Deduction Limits & Phaseout:**
- Max deduction: **\$10,000/year**
- Phaseout thresholds:
 - **\$200,000 MAGI (MFJ), \$100,000 (others)**
 - Reduced by **\$200 per \$1,000** over threshold
 - Fully phased out at **\$250,000 MFJ, \$150,000 others**
 - **Additional Rules:**
- **VIN must be reported** on tax return
- **Refinancing interest qualifies** up to original loan balance
- **Non-itemizers can claim the deduction**
- **Lender Reporting Requirements:**
- Required for interest payments **≥ \$600/year**
- Must report **borrower info, loan terms, vehicle details**
- **Penalties apply** for failure to file or furnish statements

Trump Accounts

- **1. Trump Accounts (IRC §530A)**
- **New child-focused retirement account (IRA under §408(a))**
- **For U.S. citizens under age 18 with a valid SSN**
- **May be established by Treasury, parents, relatives, employers, nonprofits, or governments**
- **Contribution limit: \$5,000/year (non-deductible; indexed after 2027)**
- **No contributions allowed before July 4, 2026**
- **Investments restricted to low-cost U.S. equity index funds (e.g., S&P 500)**
- **Distributions prohibited before age 18, with ABLE account rollover exceptions**
- **Reporting required for contributions, distributions, and values; 3rd-party contributions >\$25 must be disclosed**

Trump Accounts

- **2. Pilot Program (IRC §6434)**
- **\$1,000 federal contribution** per eligible child (refundable credit)
- Child must be:
 - Born between **1/1/2025-12/31/2028**
 - A **U.S. citizen** with no prior election made
- Election requires child's SSN; **not subject to federal offsets**
- **3. Employer Contributions (IRC §128):**
- Up to **\$2,500/year** to Trump Accounts of employees or their dependents
- **Excluded from gross income**, indexed for inflation after 2027

Trump Accounts

- **4. General Contributions (IRC §139J):**
- Contributions from qualified entities (e.g., 501(c)(3)s, tribal governments)
- Excluded from gross income
- **5. Penalties (IRC §6659):**
- \$500 penalty for negligent Pilot Program claims
- \$1,000 penalty for fraudulent claims

Enhancement of Adoption Credit (Effective 2025)

- **Partial Refundability:**
- Up to **\$5,000** of the federal adoption tax credit is now **refundable**
- Allows eligible taxpayers to receive part of the credit **even with no tax liability**
- **Inflation Adjustments:**
- **Credit amount and phaseout thresholds** now indexed for inflation
 - **Base year: 2001** (for most amounts)
 - **Base year: 2024** (for refundable portion)
 - **Technical Clarification:**
- **Refundable portion cannot be carried forward**
- Treated as a credit under **Subpart C** (not Subpart A)
 - **Impacts interactions with other credits and carryforward rules**
 - **Effective Date:**
- Applies to **tax years beginning after December 31, 2024**

Tribal Recognition for Special Needs – Adoption Credit

- **Expanded Authority (Effective 2025):**
- **IRC §23(d)(3)** amended to recognize **Indian tribal governments**
- Tribal governments may **determine whether a child has special needs** for federal adoption tax credit purposes
- **Key Impact:**
- Tribal determinations are treated **equally to state determinations**
- Enables **adoptive parents** under tribal jurisdiction to claim **special-needs benefits**, including:
 - Full adoption credit allowed regardless of actual adoption expenses
 - **Effective Date:**
- Applies to **tax years beginning after December 31, 2024**

Enhancement of Dependent Care Assistance Program (DCAP)

- **Increased Exclusion Limits (Effective 2026):**
- **Annual exclusion** for employer-provided dependent care benefits increased to:
 - **\$7,500** (up from \$5,000) for most taxpayers
 - **\$3,750** (up from \$2,500) for **married individuals filing separately**
 - **Effective Date:**
- **Applies to tax years beginning after December 31, 2025**

Enhancement of Child & Dependent Care Tax Credit (CDCTC)

- **Increased Credit Rate (Effective 2026):**
- **Max credit rate increased to 50%** (from 35%) of qualifying expenses
- **Two-Tiered Phaseout Structure:**
- **Tier 1:**
 - Credit reduced from **50% to 35%**
 - 1% reduction per \$2,000 of AGI over **\$15,000**
 - **35% rate applies** from AGI **\$43,001 to \$75,000** (or \$150,000 if MFJ)
- **Tier 2:**
 - Credit further reduced from **35% to 20%**
 - 1% per \$2,000 (or \$4,000 for MFJ) of AGI over **\$75,000** (or \$150,000 MFJ)
 - **Min credit rate is 20%**
 - By AGI of **\$103,000** (or **\$206,000 MFJ**), credit reduced to minimum

Enhancement of Child & Dependent Care Tax Credit (CDCTC)

- **Qualifying Expenses Cap:**
- **\$3,000** for one qualifying individual
- **\$6,000** for two or more qualifying individuals
- Credit = applicable percentage × qualifying expenses
- **Effective Date:**
- Applies to **tax years beginning after December 31, 2025**

New Tax Credit: Donations to Scholarship Granting Organizations (SGOs)

- **Overview (Effective 2027):**

- **Nonrefundable credit** for cash donations to SGOs supporting K-12 education scholarships
- **Credit amount:** 100% of donation, up to **\$1,700/year**
 - Reduced if donor receives a state tax credit for same contribution
 - Cannot also claim a charitable deduction
 - Eligibility Criteria:
- **Donor:** U.S. citizen or resident individual
- **Donation:** Cash gift to a qualifying in-state SGO
- **SGO must:**
 - Be a 501(c)(3) public charity (not a private foundation)
 - Spend $\geq 90\%$ of revenue on scholarships
 - Serve 10+ students across multiple schools
 - Prioritize siblings and existing recipients
 - Prohibit donor earmarking or awards to relatives
 - Verify income eligibility annually

New Tax Credit: Donations to Scholarship Granting Organizations (SGOs)

- **Student Requirements:**
 - Must be **school-age (K-12)**
 - Family income \leq **300% of area median income**
 - Scholarships can cover **qualified K-12 education expenses (IRC §530(b)(3)(A))**
- **Additional Provisions:**
 - **Credit carryforward: Up to 5 years**
 - **Tax-free scholarships:** Not included in recipient's gross income (**\$139K**)
 - **State opt-in required:** Program applies **only in participating states**
- **Planning Note:**
 - **Federal benefit for school choice, but cap = \$1,700**
 - **Choose either the credit or a charitable deduction—not both**

Permanent Exclusion: Employer Student Loan Payments

- **Tax-Free Benefit (Effective 2026):**
- **Employer payments** toward qualified student loans are **excluded from employee income**
- Applies to both **direct payments to lenders** and **reimbursements to employees**
- **Annual Exclusion Limit:**
- Up to **\$5,250/year** under a **qualified educational assistance program**
- Consistent with existing **IRC §127** limits
- Applies to both **principal and interest** on qualified education loans (IRC §221(d)(1))
- **Inflation Adjustment:**
- **\$5,250 limit indexed for inflation** beginning in **2027**
- **Effective Date:**
- Applies to **payments made after December 31, 2025**

Expansion of 529 Account Qualified Expenses

- **Expanded Use of 529 Funds (Effective July 5, 2025):**
New qualified K-12 education expenses now include:
- **Tuition** (public, private, religious elementary & secondary schools)
- **Curriculum & curricular materials**
- **Books and instructional materials**
- **Online educational materials**
- **Tutoring/educational classes**
 - Tutor must be **unrelated and qualified**
- **Standardized test fees** (e.g., AP, SAT)
- **Dual enrollment fees** (college-level courses while in K-12)
- **Educational therapies** for students with disabilities
 - Must be provided by **licensed/accredited professionals**
 - **Increased Annual Limit (Effective 2026):**
- Annual **tax-free K-12 tuition distributions** increased from **\$10,000 → \$20,000**

529 Plans: Now Cover Postsecondary Credentialing Expenses

- **Expanded Qualified Expenses (Effective July 5, 2025):**
529 distributions can now be used tax-free for:
 - **Tuition, fees, books, supplies, and equipment** for postsecondary credential programs
 - **Testing fees** required to obtain/maintain credentials
 - **Continuing education fees** required to retain credentials
 - **Eligible Credential Programs Must Be:**
 - Listed under the **Workforce Innovation and Opportunity Act (WIOA)**
 - Included in the **Veterans Benefits Administration WEAMS** directory
 - Preparatory for required licensing/credentialing exams
 - Designated as **reputable by the Secretary of Treasury** (in consultation with the Secretary of Labor)
 - **Recognized Postsecondary Credentials Include:**
 - Credentials accredited by **ICE, NCCA, or ANSI**
 - Credentials in the **DoD COOL** directory
 - **State/federal occupational or professional licenses**
 - **Certificates from registered apprenticeships**
 - **Industry-recognized credentials** identified by Treasury/Labor

Charitable Deduction for Non-Itemizers - Permanently Restored

- **Overview (Effective 2026):**
- **Section 170(p)** amended to **permanently allow a charitable deduction** for standard deduction filers
- Deduction applies to **cash contributions only**
- **Deduction Limits:**
- Up to **\$1,000** for **single filers**
- Up to **\$2,000** for **married filing jointly**
- **Key Features:**
- Available **only to non-itemizers**
- Treated as a **below-the-line deduction**
 - Reduces **adjusted gross income (AGI)** to calculate taxable income
 - **Effective Date:**
- Applies to **tax years beginning after December 31, 2025**

New 0.5% Floor on Charitable Deductions for Itemizers

- **Deduction Limitation (Effective 2026):**
- **Charitable contributions are deductible only to the extent they exceed 0.5% of a taxpayer's contribution base (typically AGI)**
- **Applies only to taxpayers who itemize deductions**
- **Ordering Rule for Applying Contributions Toward the Floor:**
- **Capital gain property to private foundations (20% limit)**
- **Capital gain property to public charities (30% limit)**
- **Other contributions subject to 30% limit**
- **Qualified conservation easements**
- **Contributions subject to 50% limit**
- **Cash contributions to public charities (60% limit)**
 - **Note: The 60% AGI limit is now permanent**

New 0.5% Floor on Charitable Deductions for Itemizers

- **Carryforward Rule:**
- **Excess contributions** disallowed under the 0.5% floor may be **carried forward**
- Carryforward allowed **only from years where total giving exceeded the floor**
- Subject to coordination with other charitable limits

Example

- **Step 1: Calculate 0.5% Floor**
- 0.5% of AGI = $0.005 \times \$200,000 = \$1,000$
- Only amounts **above \$1,000** are deductible
- **Step 2: Apply Ordering Rules:**
- \$4,000 → donor-advised fund (30%)
- \$2,000 → private foundation (20%)
- \$500 → public charity (60%)
- Total contributions = \$6,500
- **Deductible amount = \$6,500 - \$1,000 = \$5,500**
- No contribution-specific AGI caps triggered

Example

- **Step 3: Carryforward Rule**
- **\$1,000 disallowed** due to floor
- **Eligible for carryforward**, since contributions exceeded the 0.5% threshold
- May be deducted in a future year, **subject to limitation rules**

Capital Gains Installment Relief - Farmland Sales (Effective 2025)

- **New Deferral Option for Qualified Farmland Sales:**
- Taxpayers may **elect to pay capital gains tax in 4 equal annual installments**
- Applies to **sales beginning after July 4, 2025**
- **Qualified Farmland Property:**
- U.S. real property used in farming by the taxpayer (or leased to a farmer)
- Must have been farmed for **substantially all of the prior 10 years**
- Must remain under a **legally enforceable restriction prohibiting non-farming use for 10 years after sale**

Termination of Clean Energy & Vehicle Tax Credits – Key Deadlines

- **1. Previously-Owned Clean Vehicle Credit (§25E)**
- Up to **\$4,000** credit for used EVs
- **Terminated for vehicles acquired after September 30, 2025**
- **Advisory:** Clients must acquire the vehicle by **Q3 2025** to claim the credit
- **2. Clean Vehicle Credit for New EVs (§30D)**
- Up to **\$7,500** for new EVs
- **Ends for vehicles acquired after September 30, 2025**
- IRS guidance pending on the definition of “acquired”

Termination of Clean Energy & Vehicle Tax Credits – Key Deadlines

- **3. Alternative Fuel Refueling Property Credit (§30C)**
- For EV charging stations and other refueling infrastructure
- Ends for property placed in service after June 30, 2026
- Last eligible period: first half of 2026
- **4. Energy Efficient Home Improvement Credit (§25C)**
- Covers windows, insulation, HVAC, etc.
- Repealed for improvements placed in service after December 31, 2025
- Final year to qualify: 2025

Termination of Clean Energy & Vehicle Tax Credits – Key Deadlines

- **5. Residential Clean Energy Credit (\$25D)**
 - Covers solar panels, geothermal, etc.
 - Ends for expenditures made after December 31, 2025
 - Clients must complete installation in 2025
- **6. New Energy Efficient Home Credit (\$45L)**
 - Builder credit for new energy-efficient homes
 - Ends for homes acquired after June 30, 2026

Refund of Excise Tax for Certain Dyed Fuel Removals

- **New Refund Mechanism (Effective Early 2026):**
- Allows refunds of excise tax paid on dyed diesel or kerosene, if:
 - Fuel was taxed under IRC §4081
 - Tax was not previously credited or refunded
 - Fuel qualifies for exemption under IRC §4082(a) (e.g., farming, heating use)
 - Refund Details:
- Refund equals amount of excise tax previously paid
- No interest paid on the refunded amount
- Eligibility:
- Applies to individuals who remove dyed fuel from a terminal
- Fuel must meet nontaxable use criteria under federal law
- Penalties:
- Excessive claims subject to civil penalties under IRC §6675
- Effective Date:
- Applies to fuel removed on or after January 1, 2026 (180 days after July 4, 2025)

New SSN & EIN Requirements - Education Tax Credits (Effective 2026)

- **Applicable Credits:**
 - **American Opportunity Tax Credit (AOTC)**
 - **Lifetime Learning Credit (LLC)**
 - Both under IRC §25A
- **New Identification Requirements:**
 - **Taxpayer's SSN** must be included on the return
 - If claiming expenses for someone else (e.g., a **dependent**):
 - That individual's **name and SSN** must also be reported
 - For AOTC only:
 - Must also report the **EIN of the educational institution** where tuition was paid

New SSN & EIN Requirements - Education Tax Credits (Effective 2026)

- **Definition of SSN:**
 - As defined under §24(h)(7) – must be **valid for employment** and issued by the SSA
- **Clerical Error Rule:**
 - Missing SSN or EIN is treated as a **mathematical or clerical error**
 - IRS may **disallow the credit automatically**, without initiating an audit
- **Effective Date:**
 - Applies to **tax years beginning after December 31, 2025**

Premium Tax Credit (PTC)
Limited to Citizens & Eligible
Aliens (Effective 2027)

- **New Eligibility Rule (IRC §36B Amendment):**
- After 2026, only U.S. citizens and “eligible aliens” can claim the Premium Tax Credit (PTC)
- “Eligible alien” includes:
 - Lawful permanent residents (green card holders)
 - Cuban and Haitian entrants under Refugee Education Assistance Act of 1980
 - Individuals residing in the U.S. under a **Compact of Free Association** (e.g., from Micronesia, Marshall Islands, Palau)


Premium Tax Credit (PTC) Limited to Citizens & Eligible Aliens (Effective 2027)

- **Exchange Verification Requirements:**
Before any month can be a "coverage month" for PTC, exchanges must verify:
 - Immigration status
 - Household income and family size
 - Eligibility for health coverage
 - Place of residence
 - Other data as required by Treasury
- **Advance PTC Payments Prohibited:**
 - Advance payments of the PTC are **not allowed** for individuals who do **not meet eligibility requirements**
- **Effective Dates:**
 - PTC restrictions apply to tax years beginning after **December 31, 2026**
 - Verification changes apply to plan years beginning on or after **January 1, 2027**

Enhanced Qualified Business Income (QBI) Deduction – Post- 2025

- **Permanent Extension:** IRC §199A 20% QBI deduction made permanent for individuals, trusts, and estates.
- **Expanded Income Thresholds:**
- **Joint Filers:** Phase-in now from **\$394,600 to \$544,600** (was \$494,600)
- **Single Filers:** Phase-in now from **\$197,300 to \$272,300** (was \$247,300)
- **SSTB Limit Phase-Out:** Thresholds raised:
- From **\$100K → \$150K** (joint) and **\$50K → \$75K** (single)
- **New Minimum Deduction:**
- **\$400** deduction for materially participating businesses earning **≥ \$1,000 QBI**
- **Inflation Adjusted (from 2027):** Both \$400 minimum and \$1,000 threshold indexed
- **Effective:** Tax years beginning after **Dec 31, 2025**

Permanent 100% Bonus Depreciation (Full Expensing)

- **Restored & Permanent:** Revives 100% bonus depreciation under IRC §168(k) for qualified property acquired after Jan 19, 2025.
- **Eligible Property:** 
- Tangible depreciable assets with ≤ 20 -year recovery (e.g., machinery, equipment, improvements)
- Specified plants bearing fruits/nuts (if planted/grafted after Jan 19, 2025)
- **Transitional Election Option:**
- Elect lower bonus rates (e.g., 40% or 60%) for certain long-production assets or noncommercial aircraft
- **Phaseout for Pre-2025 Contracts:**
- 40% rate in 2025, 20% in 2026, and 0-20% in 2027, depending on asset type and production period
- **Effective Date:** Property must be acquired after Jan 19, 2025 to qualify for 100% expensing

Full Expensing of Domestic R&E Expenditures

- **Restores Immediate Deduction:**
- Domestic **R&E expenses fully deductible** in the year paid/incurred (reverses TCJA amortization rule).
- Applies to trade or business expenditures **within the U.S.** only.
- **Optional Amortization Election:**
- Elect to amortize over **≥60 months** from when benefits begin.
- Must be applied consistently unless IRS approval is obtained.
- **Coordination with Research Credit:**
- **Credit limited to domestic R&E** starting in 2025.
- Deduction must be **reduced by the research credit claimed.**

Full Expensing of Domestic R&E Expenditures

- **Small Business Relief (Retroactive):**
- **Businesses with \leq \$31M avg. receipts can retroactively apply change to 2022-2024.**
- **Election due by July 4, 2026, via amended returns.**
- **Acceleration of Past Capitalized Costs:**
- **Capitalized 2022-2024 R&E costs may be deducted:**
 - **Fully in 2025, or**
 - **Ratably over 2025-2026**
 - **Key Inclusions & Exclusions:**
- **Included: Software development expenses**
- **Excluded: Foreign research, land, depreciable assets, mineral exploration**
- **Effective: Tax years after Dec 31, 2024**

Modification of Business Interest Deduction - §163(j)

- **Expanded Adjusted Taxable Income (ATI) - After 2024:**
- **Add-back of depreciation, amortization, and depletion** to ATI increases deductible interest.
- Interest deduction = business interest income + 30% of ATI + floor plan interest.
- **Foreign Income Included in ATI - After 2025:**
- **ATI now includes:**
 - Subpart F income (§951(a))
 - GILTI (§951A(a))
 - §78 gross-up
 - Deductions under §245A(a) & §250(a)(1)(B)
 - **Broadened Floor Plan Interest (After 2024):**
- Now includes interest for **recreational trailers/campers** towable by or affixed to motor vehicles.

Paid Family & Medical Leave Credit - Extended & Expanded

- **Extended Permanently:** Credit under **\$45S** extended **beyond 2025** for employers providing paid FMLA.
- **Flexible Credit Options:**
- Choose between:
 - % of wages paid to employees on leave, or
 - % of insurance premiums paid (credit applies even if leave isn't taken)
 - Expanded Eligibility:
- **Employee eligibility** reduced from 12 to **6 months of employment**
- **Part-time workers** qualify if they work **≥ 20 hrs/week**

Paid Family & Medical Leave Credit - Extended & Expanded

- **Clarified Aggregation Rules (§414):**
- **Controlled group members are treated as a single employer for credit purposes**
- **Requires written paid FMLA policy for all members**
- **Exceptions allowed only for substantial & legitimate business reasons**
- **Treatment of State-Mandated Leave:**
- **Counts toward the employer's program**
- **Excluded from the federal credit calculation**
- **No Double Benefit: Employers cannot deduct the same premiums/wages for which the credit is claimed**
- **Effective: Tax years after Dec 31, 2025**

Business Meal Deduction Rules – Post-2025 Updates

- **TCJA Disallowance Retained (No Deduction):**
- **After 2025, no deduction for:**
 - Meals excludable under §119(a) (for employer convenience on-site)
 - De minimis fringe meals under §132(e)
 - Fully Deductible Meal Exceptions Retained:
- **Food & beverages sold to customers (§274(e)(8))**
- **Meals for crew of commercial vessels & drilling rigs (§274(o))**
- **New Expansion - 100% Deductible:**
- **Fishing Vessel Crews & Fish Processors (§274(n)(2)(C))**
 - Was 50%, now fully deductible
 - Fish processors must be:
 - Located north of 50° N latitude
 - Outside a metropolitan area per §143(k)
 - Effective: Tax years after Dec 31, 2025

Enhanced §179 Expensing Limits for Business Assets

- **Higher Expensing Cap (Effective 2025):**
- **§179 deduction limit increased** from ~\$1.25M → \$2.5M
- **Phase-out threshold** raised from ~\$3.13M → \$4.0M
- **Applies to:**
- Qualifying **depreciable tangible property** (e.g., machinery, equipment, certain improvements)
- **Inflation Adjustments:**
- New limits **indexed annually** starting in 2026
- **Base year: 2024**
- **Effective Date:**
- **Tax years beginning after Dec 31, 2024**

New 100% Depreciation for Qualified Production Property (§168 (n))

- **100% First-Year Deduction:**
- Full expensing of **qualified nonresidential real property** used in **domestic production**
- **Basis reduced** by deduction for future depreciation
- **Eligible Property Requirements:**
- Used in **manufacturing, refining, or production** (not sales, R&D, admin, etc.)
- **Located in the U.S. or possessions**
- **Original use** begins with taxpayer
- Construction starts: **After Jan 19, 2025**
- Placed in service: **Before Jan 1, 2031**
- **Designated in election** by taxpayer

New 100% Depreciation for Qualified Production Property (§168 (n))

- **Exclusions:**
 - Office space, lodging, parking, sales, R&D, software/engineering
 - Property under **alternative depreciation system**
- **Used Property Exception:**
 - Allows **previously owned property** (if not used in production since Jan 1, 2021 and not previously owned by taxpayer)
- **Recapture Rules (§1245):**
 - Applies if use **changes within 10 years**
 - Treated as disposed of at date of non-qualified use
- **Election:**
 - Made on tax return
 - **Irrevocable** without IRS consent (except under extraordinary circumstances)
- **Effective Date:** Applies to property **placed in service after July 4, 2025**

Advanced Manufacturing Investment Credit Enhanced

- **Increased Credit Percentage:**
- **From 25% → 35%** of qualified investment
- **Applies to eligible semiconductor and equipment manufacturing facilities**
- **Eligible Facilities Must:**
- **Be constructed before 2027**
- **Have a primary purpose of manufacturing:**
 - **Semiconductors, or**
 - **Semiconductor manufacturing equipment**
- **Effective Date:**
- **Applies to property placed in service after Dec 31, 2025**