

2025 TAX UPDATE FOR INDIVIDUAL & BUSINESS

Passage of One Big Beautiful Bill (OB3)

The signing of the One Big Beautiful Bill (OB3) on July 4, 2025 extended, made permanent or added to the TCJA bill passed in 2018 and set to expire. It also changed prior tax laws. The most significant change was accelerating the expiration of the clean energy bill. Some of these changes take effect in 2025, others in 2026. If the taxpayer and spouse lived together all year and file married separate, they may not qualify for some of these tax breaks. In addition, the taxpayer, spouse and children must have valid social security numbers. How does this affect you? See partial lists below. For specific details check website or Facebook. For a fee, tax planning appointment can be scheduled.

OB3 Items Taking Effect in 2025

- Age 65 and over new Senior personal exemption up to \$6,000
- Increased standard deduction made permanent and no more personal exemption
- Trump Account – \$1,000 per child born 1/1/25 thru 12/31/28
- Child tax credit increased to \$2,200
- Qualified Tips and Overtime – possible deduction
- SALT (taxes) deduction changed from \$10,000 to up to \$40,000 – Schedule A
- Purchase of qualified new vehicle – possible interest deduction up to \$10,000
- Expanded educator expense deduction
- Adoption credit made partially refundable

- Section 529 eligible education expenses have been expanded effective 7/4/2025
- Qualified home energy improvements must be completed by 12/31/2025
- For windows & doors installed in 2025 will need the qualified manufacturer ID for Form 5695 to receive the energy credit
- \$15 million estate tax exemption per person
- Gambling losses allowed at 90% of winnings with proof

OB3 Items Taking Effect in 2026

- Mortgage insurance premiums will be an itemized deduction on Schedule A
- Qualified disaster losses made permanent with state-declared disasters also qualifying
- Miscellaneous 2% deduction permanently removed with a few exceptions
- Charitable contribution allowed without itemizing: \$1,000 single / \$2,000 married filing joint
- Charitable contributions on a Schedule A will be subject to a .5% of AGI floor (similar to the 7.5% floor of medical expenses)
- As of 7/5/2026 contributions to a Trump Account up to \$5,000 / year can be made
- ABLE account contribution – saver's credit to beneficiary plus other contribution increases
- Saver's credit increased to \$2,100
- Expansion of HSA contributions for bronze or catastrophic coverage

OB3 Items Affecting Employers

Depending on an employer's NAICS code, a business' employees may qualify for the TIP exemption. There is a preliminary list of 68 separate occupations in 8 categories. See website for details. This "No Tax on Tips" deduction is retroactive to 1/1/2025. For 2025, the employer is required to either report on the W2, 1099 or via a statement. The same is true for overtime reporting. Any non-exempt employee paid time and a half overtime after working 40 hours in one week, the half is the exempted overtime. In 2026, these amounts must be reported on the W2 and all 1099s (NEC, Misc and K) to qualify for the possible exemption.

Bonus depreciation is 40% for assets purchased before 1/20/2025 and back to 100% on 1/20/2025 and thereafter. Taxpayers who don't wish to take 100% depreciation on purchased assets can elect out of it per class code and take normal MACRS depreciation. Section 179 depreciation has been increased to \$2.5 million and can be taken for certain structural components of a non-residential building. These include roofs, HVAC property, fire-protection, security and alarm systems qualify for 100% writeoff

To reimburse employees for mileage, supplies, home office or medical expenses, an employer must have a written accountable plan for each one or the reimbursement is required to be reported on the W2

Business and individual extensions allow a business owner to do some tax planning with various retirement plans. SEP, Keogh, Money Purchase plan, Profit Sharing and 2-3% employer match for Simple IRA can receive contributions up to the extended due date. Some of these plans may also be setup after year end and before the extended deadline.

Determination of Business vs Hobby

By filing a Schedule C, the taxpayer is telling the IRS that they are "*engaged in an activity for profit.*" There are two tests to determine if someone is in business. If you can pass either one, your activity is a business.

1. Test one is simple – earned a profit in three of the past five years
2. Test two is more complicated – 9 factors must be reviewed. Top factor is - are you operating it like a business: maintaining financial records, tax return, separate bank account. Other factors are expertise of owner, time and effort spent, assets purchased, small losses, expect a profit.

Rental Real Estate – Passive or Active

Most rental real estate is considered a passive activity. As a passive activity there are limits to claiming losses. This is why taxpayers prefer rental real estate to be active. However, there are various requirements to be met for rental activity to qualify as a trade or business. The failure to Issue 1099s to vendors may be used against a taxpayer claiming they are operating a "trade or business". A person can elect real estate professional or material participation. For material participation, all three tests must be met: 750 hours, more than 50% of working time spent on real estate activities such as managing properties, overseeing repairs, and making rental real estate investments. A taxpayer can elect to group rental properties together to meet the 750 hours. Advantage: qualify to take losses on return or, if gains, get to take 20% Section 199A tax deduction (QBI). By grouping, however, suspended losses are NOT released with the sale of specific property.

Estimated high and low donated items

www.itsdeductible.com

Marketplace insurance / Obamacare (1095A)

<https://www.healthcare.gov/login>

Dow and historical stock prices

<https://bigcharts.marketwatch.com>

ID vehicle's plant of manufacturer

<https://vpic.nhtsa.dot.gov/decoder/>