
2025 Tax Law Update:

The One Big Beautiful Bill Act

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Overview of OBBBA

- Commonly referred to as the ‘One Big Beautiful Bill Act’
- Passed in 2025 with broad changes to individual and corporate tax provisions
- Key implications for individuals, businesses, nonprofits, and educational institutions

Tax Rates and Thresholds

- OBBBA permanently extended the tax rates established by the TCJA.

Rate	Single	Married Filing Joint	Head of Household
10%	Up to \$11,925	Up to \$23,850	Up to \$17,000
12%	11,926 – 48,475	23,851 – 96,950	17,001 – 64,850
22%	48,476 – 103,350	96,951 – 206,700	64,851 – 103,350
24%	103,351 – 197,300	206,701 – 394,600	103,351 – 197,300
32%	197,301 – 250,525	394,601 – 501,050	197,301 – 250,500
35%	250,526 – 626,350	501,051 – 751,600	250,501 – 626,350
37%	Over \$626,350	Over \$751,600	Over \$626,350

Exemptions and Standard Deduction

- Personal Exemptions were suspended under TCJA and permanently removed under the OBBBA.
- 2025 Standard Deduction amounts:

Filing Status	Standard Deduction
Single	\$15,750
Married Filing Joint	\$31,500
Married Filing Separate	\$15,750
Head of Household	\$23,650

New Senior Deduction

- Beginning in 2025 and running through 2028, taxpayers 65 or older can claim an additional deduction.
- Available regardless of whether you itemize or not.
- Phase out begins at a modified adjusted gross income of \$75,000 (S) and \$150,000 (MFJ). Total phase out at \$175,000 (S) and \$250,000 (MFJ).

Filing Status	Standard Deduction (2025)	Age 65 Plus	New Senior Deduction	Total Deduction
Single (65+)	\$15,750	\$2,000	\$6,000	\$23,750
Married (both 65+)	\$31,500	\$3,200	\$12,000	\$46,700



Qualified Small Business Stock (QSBS)

- QSBS is stock in a domestic C Corporation that qualifies as a qualified small business at the time the stock is issued.
- Investors must acquire stock at the original issuance, directly from the company.
- Eligible trade or business examples: Tech companies, software companies, manufacturing businesses, R&D oriented companies, green energy and clean tech ventures, and other product focused or scalable growth businesses.



Qualified Small Business Stock (QSBS)

Considerations:

- Shorter Holding Periods
- Greater Tax Savings Potential
- Wider Access

Qualified Small Business Stock (QSBS)

	TCJA	OBBBA (for QSBS issued after 07/04/2025)
Holding Period for Full Exclusion	Minimum 5 Years	50% after 3 Years, 75% after 4 Years, 100% after 5 Years
Maximum Gain Exclusion Cap	Greater of \$10 million or 10x basis	Increased to \$15 million (or 10x basis) indexed for inflation starting 2027
Aggregate Gross Assets Limit	\$50 million	Raised to \$75 million, inflation indexing starting 2027
Applicability	Applies to all QSBS issued before changes	Only applies to QSBS issued on or after 07/05/2025

Bonus Depreciation & Section 179

Provision	Pre-OBBBA	OBBBA
Bonus Depreciation	Phasing down: 80% - 60% - 40% - Heading to 0%	Permanently 100% for Qualified Property
Section 179	\$1.25 million cap, \$3.13 million phase-out	\$2.5 million cap; Phase out beginning at \$4 million; fully phased at \$6.5 million. Indexed for inflation starting in 2026.
Qualified Production Property (QPP)	Not available	100% expensing via new Section 168(n), for eligible real property



100% Expensing for Qualified Production Property (QPP)

- IRC Section 168(n) – an elective expense that allows businesses to immediately expense at 100% certain nonresidential real property used in production activities.
- Property must be nonresidential real property used in manufacturing, production, or refining.
- Property must involve substantial transformation of tangible personal property into a new product.

100% Expensing for QPP (Cont.)

- Property must be constructed by the manufacturer starting after 01/19/2025 and before 01/01/2029, with placement in service before 01/01/2031. Or acquired property must meet similar timing and usage rules plus not be previously used in production from 2021 – 2025, and not from related party transfers.
- Property must be located in the US or a U.S. possession
- The original use of the property must begin with the taxpayer

Depreciation Recapture Risk of QPP

- **10-year recapture period:** If the QPP ceases to be used for a qualified purpose at any time during the 10-year period beginning on the date it was placed in service, recapture is triggered.
- **Recapture amount:** When recapture is triggered, a portion of the 100% bonus depreciation is disallowed and must be added back into income. The recapture calculation follows the rules under Internal Revenue Code (IRC) Section 1245.

Depreciation Recapture Risk of QPP (Cont.)

- **Resulting tax:** The recaptured amount is taxed as ordinary income, not capital gains, which can result in a significant tax liability.
- **Potential triggers:** A recapture event can occur if the property is:
 - **Converted to non-qualified use:** The taxpayer re-purposes the property for a use that does not qualify for the QPP deduction, such as converting a manufacturing area into an office space.
 - **Disposed of or sold:** The taxpayer sells the property within the 10-year period



Examples of QPP

Under the OBBBA, portions of the facility that are an integral part of the manufacturing process would be eligible for the 100% bonus depreciation as QPP, including:

- **Production floor:** The structural components of the factory floor where the semiconductor manufacturing equipment is located.
- **Cleanroom facilities:** The specialized rooms, including their walls, ceilings with HEPA filters, specialized lighting, and automated wafer handling systems.
- **Utility systems:** The specific plumbing, electrical systems, specialized HVAC, and gas lines that are essential for the production process.
- **Sub-fab level:** The area beneath the cleanroom containing pumps, transformers, and ultrapure water systems.

Examples of Property Excluded from QPP

Under the OBBBA, portions of the facility that are not an integral part of the manufacturing process would be ineligible for the 100% bonus depreciation as QPP, including:

- **Administrative offices:** The area housing corporate, human resources, or sales staff.
- **Research and development (R&D) lab:** A dedicated lab for developing future generations of integrated circuits.
- **Cafeteria and breakrooms:** Areas used for preparing and serving food to employees.
- **Parking lot:** The outside lot for employee and visitor vehicles.

No Tax on Tips or Overtime Overview

- Retroactive to 01/01/2025

Provision	Maximum Deduction	Qualifies	Income Phase-Out Threshold	Duration
No Tax on Tips	\$25,000	Voluntary tips from qualifying occupations	Begins at MAGI > \$150,000 (S) and \$300,000 (MFJ)	2025 – 2028
No Tax on Overtime	\$12,500 (S) \$25,000 (MFJ)	Only the overtime premium required under FLSA qualifies	Begins at MAGI > \$150,000 (S) and \$300,000 (MFJ)	2025 – 2028




More on No Tax on Tips

- **"Qualified tips"** are voluntary cash or charged tips received from customers or through tip sharing
- **Self-employed individuals in a Specified Service Trade or Business (SSTB)** under section 199A are not eligible. Employees whose employer is in an SSTB also are not eligible.
- **Taxpayers must:**
 - Include their Social Security number on the return and
 - File jointly if married, to claim the deduction.

Example of No Tax on Tips

Taxpayer: Alex, a single restaurant server in Omaha, NE.; **Income:** Wages: \$20,000; Tips Reported to Employer: \$25,000

Summary of Alex's tax return

Category 	Calculation	Amount
Gross Income	Wages + Tips	\$45,000
Deduct Tips	Maximum of \$25,000	-\$25,000
Adjusted Gross Income (AGI)	Gross Income - Tip Deduction	\$20,000
Standard Deduction	2025 Single Standard Deduction	-\$15,375
Taxable Income	AGI - Standard Deduction	\$4,625
Federal Income Tax	Based on Tax Brackets	\$463
Tax Savings	Tax on \$45,000 vs. \$20,000	Over \$2,000

More on No Tax on Overtime

- Only for non-exempt employees as stated under the Fair Labor Standards Act (FLSA)
- Qualified overtime pay is the premium pay that exceeds their regular rate of pay (such as the "half" portion of the "time-and-a-half" compensation).
- Employers and other payors are required to file information returns with the IRS (or SSA) and furnish statements to taxpayers showing the total amount of qualified overtime compensation paid during the year.
- **Taxpayers must:**
 - Include their Social Security number on the return and
 - File jointly if married, to claim the deduction.

Example of No Tax on Overtime Pt.1

Scenario details

- **Filing status:** Single
- **Annual wages (non-overtime):** \$45,000
- **Overtime wages:** An additional 200 hours at an overtime rate of \$30/hour.
- **Modified Adjusted Gross Income (MAGI):** \$51,000 (\$45,000 base wages + \$6,000 overtime premium, which is below the \$150,000 phase-out threshold for single filers).
- **Standard Deduction (2025):** \$16,000. [🔗](#)


Calculation of qualified overtime

Only the "half" of the "time-and-a-half" overtime pay is deductible. [🔗](#)

- **Regular hourly rate:** \$20/hour (\$30 overtime rate / 1.5)
- **Overtime premium rate:** \$10/hour (\$30 overtime rate - \$20 regular rate)
- **Total qualified overtime compensation (premium portion):** 200 hours x \$10/hour = \$2,000 [🔗](#)

Example of No Tax on Overtime Pt.2

Tax comparison table

Calculation item 	With overtime tax deduction	Without overtime tax deduction
Annual gross income	\$51,000 (\$45,000 + \$6,000)	\$51,000 (\$45,000 + \$6,000)
Overtime tax deduction	- \$2,000	- \$0
Adjusted Gross Income (AGI)	\$49,000	\$51,000
Standard deduction	- \$16,000	- \$16,000
Taxable income	\$33,000	\$35,000
Federal tax liability	\$3,542	\$3,742
Tax savings	\$200	\$0



Immediate Expensing of Research and Development (R&D)

- The OBBBA permanently reinstates immediate expensing of domestic R&D costs beginning in 2025.
- **Impact on business cash flow**
 - The OBBBA directly addresses the cash flow challenges created by the TCJA's mandatory amortization, which was a major concern for innovation-focused businesses, especially smaller companies. By allowing immediate expensing for domestic R&D, businesses can realize the full tax benefit in the year the costs are incurred, providing a much-needed incentive for innovation.

Summary of R&D Changes Under OBBBA — 2025 and Beyond

- **Domestic R&D Expensing**
 - Can be immediately and fully deducted in the year incurred.
- **Foreign R&D Expensing**
 - Amortization over 15 years (remains unchanged).
- **Transition Rule for Unamortized Expenses (2022–2024)**
 - Taxpayers can take a 100% deduction of unamortized costs in 2025, or spread the deduction across 2025 and 2026
- **Retroactive Relief for Small Businesses**
 - Eligible small businesses (gross receipts \leq \$31 million for 2022–2024) can amend prior returns to apply the new expensing rules.
 - The deadline is July 4, 2026.

No Tax on Car Loan Interest

- Effective 2025-2028; this is an above-the-line deduction; meaning you can take it even if you take the standard deduction.
- Vehicle Requirements:
 - The vehicle must be new, with its original use starting with you. Used vehicles do not qualify.
 - Final assembly of the vehicle must take place in the United States. You can check a vehicle's eligibility using the National Highway Traffic Safety Administrations (NHTSA) Vin Decoder.
 - The vehicle must be a car, minivan, van, SUV, pickup truck, or motorcycle with a gross weight of less than 14,000 pounds.
 - It must be for personal use, not for business or commercial purposes.

No Tax on Car Loan Interest (Cont.)

- Loan Requirements:
 - The loan must have been originated in 2025 and be secured by a lien on the vehicle.
 - Refinanced loans are also eligible, provided the original loan was qualified
- Taxpayer Income Limits:
 - The maximum annual deduction is \$10,000
 - The deduction begins to phase out for taxpayers with a Modified Adjusted Gross Income (MAGI) over \$100,000 (S) and \$200,000 (MFJ). Fully phased out at \$150,000 (S) and \$250,000 (MFJ).

2/37 Limit of Itemized Deductions

- Effective 01/01/2026 there is a new 2/37 Limit that replaces the old Pease limitation that applied to higher-income individuals, estates, and trusts.
- Introduces a new cap that reduces itemized deductions by 2/37 (5.4%) of the lesser of their total itemized deductions or amount by which taxable income exceeds the start of the 37% tax bracket.
- **Affected Deductions Include:** Charitable contributions, mortgage interest, and certain miscellaneous deduction for trusts and estate (legal/accounting fees)



2/37 Limit of Itemized Deductions Considerations

- The new limit is likely to impact charitable contributions of high taxable income taxpayers in 2026 and beyond. All things being equal, top-bracket taxpayers contemplating a charitable deduction will enjoy a greater tax benefit from charitable contributions made on or before December 31, 2025 as opposed to 2026.

Example: 2/37 Limit of Itemized Deductions (2026)

- Taxpayer: John and Jane Doe; MFJ
 - Gross Income: \$1,000,000
 - Itemized Deductions: \$160,000
 - Step 1: Calculate Amount Subject to Limit
 - $\$1,000,000$ Gross Income - $\$768,700$ threshold = $\$391,300$ Above Limit
 - Step 2: Calculate Potential Reductions
 - $\$160,000$ itemized deduction * $2/37 = \$8,649$
 - $\$391,300 * 2/37 = \$21,151$
 - Step 3: Pick the Lessor of the Two Potential Reductions
 - $\$8,649$
 - Step 4: Reduce your Itemized Deductions
 - $\$160,000 - \$8,649 = \$151,351$
 - Step 5: Calculate Final Taxable Income
 - $\$1,000,000$ Gross Income – $\$151,331$ Allowable Itemized Deduction = $\$848,649$



Charitable Deductions Updates

- Above the Line Deduction, starting in 2026 for taxpayers who do not itemize, of \$1,000 (S) and \$2,000 (MFJ).
- Makes permanent the 60% AGI limit for cash gifts to public charities.
- Beginning in 2026, those who itemize can only deduct charitable contributions exceeding 0.5% of their AGI. In other words, the first \$500 is no longer deductible.
- Beginning in 2026, corporations now face a 1% floor on taxable income before the charitable contribution deduction applies. The previous 10% ceiling remains.



SALT Deduction Increase

- Increased deduction for State and Local Taxes (SALT) from a \$10,000 cap to \$40,000 cap beginning 01/01/2025 and going through to 2029.
- Phase out starts when MAGI exceeds \$250,000 (S) and \$500,000 (MFJ)
- Deduction increase declines by 1% annually until it is reduced back to \$10,000 in 2030.



529 Plan Expansion

- Starting in 2026, the annual tax-free withdrawal cap for K-12 education doubles from \$10,000 to \$20,000.
- These funds can now be used for curriculum books and online media, tutoring, standardized tests, dual-enrollment college courses, and education therapies for students with disabilities, and educational therapies for students with disabilities.
- Beginning 07/05/2025 , disciplinary or career-oriented post-secondary credential programs become eligible for tax-free funding, including tuition, fees, books, supplies, equipment, testing, and continuing education costs to recognized credential programs.



529 Plan Expansion (Cont.)

- **Important considerations:**
 - State conformity: Not all states have adopted these new federal rules, so some states may still impose taxes or penalties on K-12 withdrawals that are now considered qualified at the federal level.
 - Rollovers: The law also makes the 529-to-ABLE account rollover option permanent and maintains the existing option to roll over unused funds to a Roth IRA (with certain limits and conditions).



Estate Tax Exemption

- Permanent increase in estate tax exemption threshold.
- For 2025 \$13.99 million per individual and \$27.98 million per married couple. Indexed for inflation going forward.

Questions?



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