RECENT DEVELOPMENTS IN FEDERAL INCOME TAXATION

We apologize to our readers. If we had more time, this outline would be much shorter.

By

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I. ACCOUNTING

II. BUSINESS INCOME AND DEDUCTIONS

A. Income

B. Deductible Expenses versus Capitalization

1. Domestic research or experimental expenditures are now deductible; foreign research or experimental expenditures still must be capitalized and amortized over 15 years. The 2025 One Big Beautiful Bill Act, § 70302, added new Code § 174A to restore the deduction for domestic research or experimental expenditures. The deduction is available for amounts paid or incurred in taxable years beginning after December 31, 2024.

Background. Previously, the 2017 Tax Cuts and Jobs Act, § 13206, amended Code § 174 to require the capitalization and amortization of "specified research or experimental expenditures." The amortization period was 5 years for domestic expenditures and 15 years for expenditures attributable to foreign research, beginning at the midpoint of the year in which the expenditures are paid or incurred. The 2017 TCJA's requirement that specified research or experimental expenditures be capitalized and amortized applied to amounts paid or incurred in taxable years beginning after December 31, 2021. The 2025 OBBA added new Code § 174A, which allows full deduction of "domestic research or experimental expenditures," and made conforming amendments to § 174, which still requires that foreign research or experimental expenditures be capitalized and amortized over 15 years. Section 174A's allowance of a deduction for research or experimental expenditures applies to amounts paid or incurred in taxable years beginning after December 31, 2024.

Elective retroactive application to 2022-2024 for small businesses. The legislation allows an "eligible taxpayer" to elect to deduct to deduct domestic research or experimental expenditures paid or incurred in taxable years beginning after December 31, 2021. For this purpose, an eligible taxpayer is one that meets the gross receipts test of § 448(c) for the first taxable year beginning after December 31, 2024. A taxpayer meets the gross receipts test if it has average annual gross receipts (computed over 3 years) of $25 million or less, which for 2025 is $31 million after taking into account adjustments for inflation. A taxpayer is not an eligible taxpayer if it meets the definition of a tax shelter that is prohibited from using the cash receipts and disbursements method of accounting under § 448(a)(3). A taxpayer that elects to deduct domestic research or experimental expenditures retroactively is treated as experiencing a change in method of accounting that is made with the consent of the IRS.

Election to deduct unamortized domestic research or experimental expenditures. The legislation permits a taxpayer that capitalized and amortized domestic research or experimental expenditures paid or incurred in taxable years beginning after December 31, 2021, and before January 1, 2025, to elect to deduct the unamortized balance of such expenditures. A taxpayer can elect to deduct the unamortized balance either in the first taxable year beginning after December 31, 2024, or ratably over the 2-taxable year period beginning with the first taxable year beginning after December 31, 2024. A taxpayer that makes this election is treated as initiating a change in method of accounting with the consent of the IRS. The change is applied only on a cut-off basis and no § 481 adjustments are made.

Election not to deduct domestic research or experimental expenditures. Section 174A(c) allows a taxpayer that is eligible to deduct domestic research or experimental expenditures to elect instead to capitalize and amortize such expenditures over a period of not less than 60 months. The election is available for domestic research or experimental expenditures that would be capital expenditures in the absence of new § 174A(a) but are not chargeable to property of a character which is subject to the allowance for depreciation under § 167 or the allowance for depletion under § 611. Taxpayers will make this election in accordance with regulations or other published guidance. The election must be made for a taxable year not later than the due date (including extensions) of the return for such year. The election applies for all subsequent years and can be changed only with the approval of the IRS.

C. Reasonable Compensation

D. Miscellaneous Deductions

1. Relief for those subject to the limit of § 163(j) on deducting business interest. The 2025 One Big Beautiful Bill Act, § 70303, amended Code § 163(j) to increase the limit on deducting business interest. Previously, § 163(j) was significantly amended by the 2017 Tax Cuts and Jobs Act, § 13301, to limit the deduction for business interest to the sum of: (1) business interest income, (2) 30 percent of "adjusted taxable income," and (3) floor plan financing interest. For this purpose, the term "adjusted taxable income" was defined essentially as earnings before interest, tax, depreciation and amortization (EBITDA) for taxable years beginning before January 1, 2022, and then as earnings before interest and taxes (EBIT) for subsequent years. Because EBIT is a smaller number than EBITDA, § 163(j) imposed a lower limit on deducting business interest for taxable years beginning on or after January 1, 2022. The 2025 OBBA amended the definition of adjusted taxable income in § 163(j)(8) so that it is again essentially equivalent to EBITDA. This change applies to taxable years beginning after December 31, 2024.

- Recall that businesses with average annual gross receipts (computed over 3 years) of $25 million ($31 million for 2025) or less and businesses in certain industries (notably real estate if a proper election is made, but also floor plan financing of auto dealers and regulated utilities) are exempted from the limitations of § 163(j). Real estate businesses must accept slightly longer recovery periods by using the alternative depreciation system for certain depreciable property if they elect out of the § 163(j) limitation.

E. Depreciation & Amortization

1. Certain depreciation and amortization provisions of the 2025 One Big Beautiful Bill Act:

a. Increased limits under § 179.

Increased § 179 Limits. The 2025 One Big Beautiful Bill Act, § 70306, amended Code § 179(b) to increase the maximum amount a taxpayer can deduct under § 179 to $2.5 million (previously $1.25

million in 2025). This limit is reduced dollar-for-dollar to the extent the taxpayer puts an amount of § 179 property in service that exceeds a specified threshold. The legislation increased this threshold to $4 million (previously $3.13 million in 2025). These changes apply to property placed in service in taxable years beginning after December 31, 2024. The legislation did not change the limit on a taxpayer's § 179 deduction for a sport utility vehicle, which remains at $25,000 ($31,300 in 2025 after inflation adjustments). The basic limit of $2.5 million and the phase-out threshold of $4 million will be adjusted for inflation for taxable years beginning after 2025. The sport utility vehicle limitation of $25,000 will continue to be adjusted for inflation for taxable years beginning after 2018. The following table summarizes these changes:

	2025 Before OBBA	**2025 After OBBA**
Limit on § 179 deduction	$1.25 million	$2.5 million
§ 179 deduction limit reduced to extent cost of § 179 property placed in service exceeds	$3.13 million	$4 million
Limit on a taxpayer's § 179 deduction for a sport utility vehicle	$31,300	$31,300

Definition of qualified real property. The 2025 One Big Beautiful Bill Act did not change the definition of "qualified real property," the cost of which can be deducted under § 179 (subject to the applicable limits just discussed). Previously, the 2017 Tax Cuts and Jobs Act, § 13101, simplified and expanded the definition of "qualified real property." Prior to amendment by the 2017 Tax Cuts and Jobs Act, § 179(f) defined qualified real property as including "qualified leasehold improvement property," "qualified restaurant property," and "qualified retail improvement property." The 2017 TCJA revised the definition of qualified real property by replacing these three specific categories with a single category, "qualified improvement property" as defined in § 168(e)(6). Section 168(e)(6) defines qualified improvement property (subject to certain exceptions) as "any improvement to an interior portion of a building which is nonresidential real property if such improvement is placed in service after the date such building was first placed in service." In addition, the 2017 TCJA expanded the category of qualified real property by defining it to include the following improvements to nonresidential real property placed in service after the date the property was first placed in service: (1) roofs, (2) heating, ventilation, and air-conditioning property, (3) fire protection and alarm systems, and (4) security systems. The changes made by the 2017 TCJA apply to property placed in service in taxable years beginning after 2017.

b. Goodbye, basis; hello 100 percent § 168(k) bonus first-year depreciation!

100 percent bonus depreciation for certain property made permanent. The 2025 One Big Beautiful Bill Act, § 70301, amended Code § 168(k) to permit taxpayers to deduct 100 percent of the cost of qualified property for the year in which the property is placed in service. This change applies to property acquired after January 19, 2025. The 2025 OBBA also amended § 168(k)(10) to permit taxpayers to elect not to deduct 100 percent, and instead to deduct the percentage of a qualified property's adjusted basis that was previously in effect for the taxpayer's first taxable year ending after January 19, 2025. Previously, under the changes to § 168(k) made by the 2017 Tax Cuts and Jobs Act, § 13201, the percentage of the property's adjusted basis that could be deducted generally was 40 percent in 2025 and 20 percent in 2026.

Used property continues to be eligible for bonus depreciation. The 2025 One Big Beautiful Bill Act did not change the rule that used property is eligible for bonus depreciation. Previously, the 2017 Tax Cuts and Jobs Act, § 13201, amended Code § 168(k)(2)(A) and (E) to make used property eligible for bonus depreciation under § 168(k). Prior to the changes made by the 2017 TCJA, property was eligible for bonus depreciation only if the original use of the property commenced with the taxpayer. Note, however, that used property is eligible for bonus depreciation only if it is acquired "by purchase" as defined in § 179(d)(2). This means that used property is *not* eligible for bonus depreciation if the property (1) is acquired from certain related parties (within the meaning of §§ 267 or 707(b)), (2) is acquired by one component member of a controlled group from another component member of the same controlled group, (3) is property the basis of which is determined by reference to the basis of the same property in the hands of the person from whom it was acquired (such as a gift), or (4) is determined under § 1014 (relating to property acquired from a decedent). In addition, property acquired in a like-kind exchange is not eligible for bonus depreciation.

F. Credits

G. Natural Resources Deductions & Credits

H. Loss Transactions, Bad Debts, and NOLs

I. At-Risk and Passive Activity Losses

III. INVESTMENT GAIN AND INCOME

IV. COMPENSATION ISSUES

V. PERSONAL INCOME AND DEDUCTIONS

A. Rates

B. Miscellaneous Income

1. Some good news for workers who depend on tips: up to $25,000 of tip income can be deducted, at least through 2028. The 2025 One Big Beautiful Bill Act, § 70201, added new § 224 of the Code (and renumbered existing § 224 as § 225). New § 224(a) authorizes an individual to deduct the amount of "qualified tips" that the individual receives.

Qualified tips. The term "qualified tips" is defined in § 224(d)(1) as the *cash tips* an individual receives in an occupation that "customarily and regularly received tips on or before December 31, 2024," as provided in guidance to be published by the IRS. The legislation directs the Secretary of the Treasury to publish a list of such occupations not later than 90 days after the date of enactment. Because the date of enactment was July 4, 2025, the list should be published by October 2, 2025. A "cash tip," according to § 224(d)(3), includes "tips received from customers that are paid in cash or charged and, in the case of an employee, tips received under any tip-sharing arrangement." An amount received is not a qualified tip, under § 224(d)(2)(A), unless the amount is "paid voluntarily without any consequence in the event of nonpayment, is not the subject of negotiation, and is determined by the payor." Further, under § 224(d)(2)(B), an amount is not a qualified tip if it is received in a specified service trade or business as defined in § 199A(d)(2), even if the tip is received by an employee in the trade or business. Readers will recall that a specified service trade or business for this purpose includes most professional services, including the practice of law, medicine, and accounting. In addition, under § 224(d)(2)(C), an amount can be a qualified tip only if it meets any other requirements established by the IRS in published guidance. Finally, to be considered a qualified tip, an amount must either be reported on certain statements furnished to the individual, such as a W-2 or 1099 form, or be reported by the individual on Form 4137, which is the form used to determine Social Security and Medicare tax owed on tips the individual did not report to the individual's employer.

Self-employed individuals. Section 224(c) makes clear that the deduction is available not only to employees, but also to those who are self-employed. In the case of a self-employed individual, however, the deduction cannot exceed the amount by which the taxpayer's gross income from the trade or business for the year (including tip income) exceeds the deductions allocable to the trade or business. This effectively means that the deduction for tip income can reduce income from the trade or business to zero, but cannot create a loss. For example, if a self-employed individual has $150,000 of gross income from the trade or business, including $20,000 of tip income, and has $140,000 of other allowable deductions for the trade or business, the taxpayer's deduction for tips is limited to $10,000 ($150,000-$140,000). In addition, § 224(d) provides that any amount for which a deduction is allowed under § 224 is excluded from the taxpayer's qualified business income for purposes of § 199A. Thus, in the example just given, if the self-employed individual has $20,000 of tip income and is able to deduct $10,000 of it under § 224, then only the remaining $10,000 of the tip income is taken into account in determining the taxpayer's qualified business income.

Limitations on the deduction. Section 224(b) provides that the amount allowed as a deduction under new § 224 cannot exceed $25,000. This limit is reduced by $100 for each $1,000 by which the taxpayer's modified adjusted gross income exceeds $150,000 ($300,000 for joint returns). This means that the deduction is completely phased out when a taxpayer's modified AGI reaches $400,000 ($550,000 for joint returns). These amounts are not adjusted for inflation.

Deduction available to non-itemizers. The deduction authorized by new § 224 is *not* an itemized deduction on Schedule A. Instead, it is a deduction that is available regardless of whether the taxpayer itemizes deductions or takes the standard deduction. The deduction necessarily will be taken on Form 1040, similar to the existing deduction for qualified business income under § 199A, and will *not* be taken on Schedule C for self-employed individuals.

Other requirements. If an individual is married, then, according to § 224(f), the deduction for tip income is allowed only if the individual files a joint return with his or her spouse. One situation in which this rule would not apply is when a married person is eligible for head-of-household filing status because they support a child and live apart (and file separately) from their spouse. Such an individual is treated as not being married under § 7703(b). In addition, to claim the deduction for tip income, an individual must have (and include on the return) a Social Security Number issued by the due date of the return. Therefore, an individual with an Individual Taxpayer Identification Number (ITIN) is not eligible for the deduction.

Will we see large amounts of income being reclassified as "tips"? Maybe. But § 224(g) directs the Secretary of the Treasury to "prescribe such regulations or other guidance as may be necessary to prevent reclassification of income as qualified tips, including regulations or other guidance to prevent abuse of the deduction allowed by this section."

Reporting by employers. The legislation directs employers reporting compensation to employees on Form W-2 or to independent contractors on Form 1099 to provide "a separate accounting of any such amounts reasonably designated as cash tips and the occupation described in section 224(d)(1) of the person receiving such tips." For tips required to be reported for periods before January 1, 2026, employers "may approximate a separate accounting of amounts designated as cash tips by any reasonable method specified by the Secretary." Guidance on the reporting requirements should be forthcoming.

Effective date. New § 224 applies to taxable years beginning after December 31, 2024. According to § 224(h), no deduction is allowed under § 224 for any taxable years beginning after December 31, 2028.

2. ♪♫ You get up every morning from your alarm clock's warning, Take the 8:15 into the city … Taking care of business and working overtime, work out.♫♪ Individuals can deduct up to $12,500 ($25,000 if MFJ) of overtime income, at least through 2028. The 2025 One Big Beautiful Bill Act, § 70202, added new § 225 of the Code (and renumbered existing § 225 as § 226). New § 225(a) authorizes an individual to deduct the amount of "qualified overtime compensation" that the individual receives and that is reported on certain statements furnished to the individual, such as a W-2 or 1099 form.

Qualified overtime compensation. The term "qualified overtime compensation" is defined in § 225(c)(1) as "overtime compensation paid to an individual required under section 7 of the Fair Labor Standards Act of 1938 *that is in excess of the regular rate* (as used in such section) at which such individual is employed" (emphasis added). Section 7 of the Fair Labor Standards Act (FLSA) requires that non-exempt employees be paid at least 1.5 times their regular rate for hours worked over 40 hours during the week. Thus, if a covered employee's regular rate of pay is $10 per hour, the employee must be paid at least $15 per hour for any hour worked over 40 hours. The language of new § 225(c)(1) indicates that only the amount in excess of the regular rate, i.e., $5 in this example, is qualified overtime compensation that can be deducted. Any amount that is a qualified tip within the meaning of new § 224(d), discussed earlier in this outline, is excluded from the category of qualified overtime compensation. Because qualified overtime compensation is defined as compensation required under the FLSA, any overtime compensation that is required by state law but not required by the FLSA would not qualify for the deduction.

Limitations on the deduction. Section 225(b) provides that the amount allowed as a deduction under new § 225 cannot exceed $12,500 ($25,000 for joint returns). This limit is reduced by $100 for each $1,000 by which the taxpayer's modified adjusted gross income exceeds $150,000 ($300,000 for joint returns). This means that the deduction is completely phased out when a taxpayer's modified AGI reaches $275,000 ($550,000 for joint returns). These amounts are not adjusted for inflation.

Deduction available to non-itemizers. The deduction authorized by new § 225 is *not* an itemized deduction on Schedule A. Instead, it is a deduction that is available regardless of whether the taxpayer itemizes deductions or takes the standard deduction. The deduction necessarily will be taken on Form 1040, similar to the existing deduction for qualified business income under § 199A.

Other requirements. If an individual is married, then, according to § 225(e), the deduction for overtime compensation is allowed only if the individual files a joint return with his or her spouse. One situation in which this rule would not apply is when a married person is eligible for head-of-household filing status because they support a child and live apart (and file separately) from their spouse. Such an individual is treated as not being married under § 7703(b). In addition, to claim the deduction for overtime compensation, an individual must have (and include on the return) a Social Security Number issued by the due date of the return. Therefore, an individual with an Individual Taxpayer Identification Number (ITIN) is not eligible for the deduction.

Administrative guidance to be issued. Section 225(f) directs the Secretary of the Treasury to "issue such regulations or other guidance as may be necessary or appropriate to carry out the purposes of this section, including regulations or other guidance to prevent abuse of the deduction allowed by this section."

Reporting by employers. The legislation directs employers issuing Form W-2 to employees to include "the total amount of qualified overtime compensation (as defined in section 225(c)." Similarly, the legislation directs those making payments to persons not treated as employees for tax purposes "a separate accounting of any amount of qualified overtime compensation (as defined in section 225(c)." For overtime compensation required to be reported for periods before January 1, 2026, employers "may approximate a separate accounting of amounts designated as qualified overtime compensation by any reasonable method specified by the Secretary." Guidance on the reporting requirements should be forthcoming.

State tax considerations. Although new § 225 allows deduction of overtime compensation (subject to the limitations and requirements described above), states that impose an income tax on individuals may not allow the deduction, which means that overtime compensation could be subject to state taxation.

Effective date. New § 225 applies to taxable years beginning after December 31, 2024. According to § 225(g), no deduction is allowed under § 225 for any taxable years beginning after December 31, 2028.

C. Hobby Losses and § 280A Home Office and Vacation Homes

D. Deductions and Credits for Personal Expenses

1. Standard deduction for 2025. The 2025 One Big Beautiful Bill Act, § 70102, amended Code § 63(c)(7) to increase the standard deduction for 2025. The standard deduction for 2025 will be $15,750 for unmarried individuals and married individuals filing separately (previously $15,000), $23,625 for heads of households (previously $22,500), and $31,500 for joint returns and surviving spouses (previously $30,000). These figures will be adjusted for inflation for tax years beginning after 2025. Readers will recall that the 2017 Tax Cuts and Jobs Act significantly increased the standard deduction for 2018 through 2025. Unlike the increases enacted by the 2017 TCJA, which were temporary, those enacted by the 2025 OBBA are permanent.

The following table sets forth the standard deduction for each filing status a taxpayer might have:

Filing Status	2023	2024	2025 Before OBBA	2025 After OBBA
Single/MFS	$13,850	$14,600	$15,000	$15,750
Head-of-Household	$20,800	$21,900	$22,500	$23,625
MFJ and Surviving Spouses	$27,700	$29,200	$30,000	$31,500

The legislation did not change the standard deduction for dependents or the additional standard deduction for the aged or blind. For individuals who can be claimed as dependents, the standard deduction for 2025 cannot exceed the greater of $1,350 (increased from $1,300 in 2024) or the sum of $450 (unchanged from 2024) and the individual's earned income. The additional standard deduction amount for those who are legally blind or who are age 65 or older is $2,000 (increased from $1,900 in 2024) for those with the filing status of single or head of household (and who are not surviving spouses) and is $1,600 (increased from $1,550 in 2024) for married taxpayers ($3,200 on a joint return if both spouses are age 65 or older).

2. The deduction for personal exemptions has permanently disappeared and a new, temporary deduction for seniors makes its first appearance in 2025. The 2025 One Big Beautiful Bill Act, § 70103, amended Code § 151(d)(5) to make permanent the elimination of the deduction for personal exemptions. Previously, the 2017 Tax Cuts and Jobs Act, § 11041, amended Code § 151(d) by adding § 151(d)(5), which reduced the exemption amount to zero for taxable years beginning after 2017 and before 2026. The amendments enacted by the 2025 OBBA omit the ending date, so that the reduction of the exemption amount to zero applies to taxable years beginning after 2017.

The 2025 OBBA, § 70103, also amended § 151(d)(5) to add § 151(d)(5)(C), which provides a new deduction for seniors for 2025 through 2028. The deduction is available to a "qualified individual," defined as a taxpayer who has attained the age of 65 by the close of the taxable year and, in the case of a joint return, the taxpayer's spouse if the spouse has attained the age of 65 by the close of the taxable year. The deduction is $6,000 for each qualified individual. Thus, if a married couple files a joint return and if each spouse has reached the age of at least 65 by the close of the taxable year, the deduction is $12,000. This deduction is in addition to the additional standard deduction for those who are legally blind or who have reached age 65. For example, if a married couple files a joint return for 2025 and if they each are at least 65 years old by the close of 2025, their standard deduction would be $34,700 ($31,500 basic standard deduction plus $3,200 additional standard deduction) and, in addition, they would be entitled to another $12,000 deduction for a total of $46,700. There are certain limitations on the new deduction. *First*, the deduction is phased out for taxpayers whose modified adjusted gross income exceeds $75,000 ($150,000 for joint returns). The reduction is 6 percent of the amount by which the taxpayer's modified adjusted gross income exceeds $75,000 ($150,000 for joint returns). Thus, the deduction is eliminated for a single taxpayer with modified adjusted gross income of $175,000 or higher and for married taxpayers filing jointly with modified adjusted gross income of $250,000 or higher. *Second*, the deduction is available to a qualified individual only if the individual has (and includes on the return) a Social Security Number issued by the due date of the return. *Third*, if an individual is married, the new deduction is available only if the individual files jointly with his or her spouse.

3. An enhanced child tax credit and the credit for dependents other than a qualifying child have become permanent. The 2025 One Big Beautiful Bill Act, § 70104, amended Code § 24(h) to enhance and make permanent changes to the child tax credit enacted in 2017. Previously, the 2017 Tax Cuts and Jobs Act, § 11022, added Code § 24(h), which significantly increased the child tax credit and established a new credit for dependents other than qualifying children for taxable years beginning after 2017 and before 2026. Before enactment of the 2025 OBBA, the changes made by the 2017 TCJA were set to expire after 2025.

Child Tax Credit. The 2025 OBBA increased the child tax credit from $2,000 to $2,200 per qualifying child for 2025. The $2,200 credit will be adjusted for inflation for taxable years beginning after 2025. The legislation also maintained the rule that the refundable portion of the credit is $1,400 per qualifying child, which continues to be adjusted for inflation. For 2025, the refundable portion of the child tax credit is $1,700. The refundable portion of the credit is determined in the same manner as under current law; the earned income threshold for determining the refundable portion continues to be $2,500. The legislation retains the current-law age limit for the credit, i.e., a person can be a qualifying child only if he or she has not attained age 17 by the end of the taxable year. To claim the child tax credit (either the refundable or nonrefundable portion), a taxpayer must include on the return *both* the taxpayer's Social Security Number (or, in the case of a joint return, the Social Security Number of at least one spouse) *and* the Social Security Number of the qualifying child. For this purpose, a Social Security Number must have been issued before the due date for filing the return. If the child tax credit is not available with respect to a qualifying child because of the absence of the child's Social Security Number, the taxpayer can claim the new, nonrefundable credit described below with respect to that child.

Nonrefundable $500 Credit for Dependents Other Than a Qualifying Child. The 2025 OBBA also makes permanent (as an increase to the basic child tax credit) the nonrefundable credit of $500 for each dependent other than a qualifying child. The $500 amount is not adjusted for inflation. This credit applies, for example, with respect to a parent who is the taxpayer's dependent and therefore a qualifying relative. The nonrefundable credit is available only with respect to a dependent who is a citizen, national, or resident of the U.S., i.e., the credit is not available with respect to a dependent who is a resident of the contiguous countries of Canada and Mexico.

Increased Phase-out Thresholds. The 2025 OBBA continues and makes permanent the modified adjusted gross income thresholds at which the credits (both the child tax credit and the

$500 nonrefundable credit) begin to phase out. Before the 2017 TCJA, the child tax credit was phased out by $50 for each $1,000 by which the taxpayer's modified AGI exceeded $55,000 for married taxpayers filing separately, $75,000 for single taxpayers or heads of household, and $110,000 for married taxpayers filing a joint return. Thus, under pre-TCJA law, the credit was phased out entirely for married taxpayers filing a joint return once modified AGI reached $130,000. The 2017 TCJA increased the phase-out thresholds to $400,000 for married couples filing a joint return and $200,000 for all other taxpayers. The 2025 OBBA maintains these increased phase-out thresholds. The increased thresholds significantly increase the number of taxpayers who benefit from the credits.

4. The deduction for state and local taxes not paid or accrued in carrying on a trade or business or an income-producing activity is increased to $40,000 for 2025 and to slightly higher amounts for 2026 through 2029. The 2025 One Big Beautiful Bill Act, § 70120, amended Code § 163(b)(6) and added § 164(b)(7) to increase the limit for individuals on deducting state and local taxes as an itemized deduction on Schedule A.

Previously, the 2017 Tax Cuts and Jobs Act, § 11042, amended Code § 164(b) by adding § 164(b)(6). For individual taxpayers, this provision generally (1) eliminated the deduction for foreign real property taxes, and (2) limited to $10,000 ($5,000 for married individuals filing separately) a taxpayer's itemized deductions on Schedule A for the aggregate of state or local property taxes, income taxes, and sales taxes deducted in lieu of income taxes. This provision applied to taxable years beginning after 2017 and before 2026.

The 2025 OBBA maintained the disallowance of foreign real property taxes and increased the limit on deducting state and local taxes on Schedule A to the "applicable limitation amount." The applicable limitation amount, according to § 164(b)(7)(A), is as follows:

Taxable Year Beginning in	Applicable Limitation Amount[1]
2025	$40,000
2026	$40,400
2027	$40,804
2028	$41,212
2029	$41,624
2030 and future years	$10,000

For married individuals filing separate returns, the applicable limitation amounts are one-half of the amounts set forth in the table. Further, the applicable limitation amount is phased out for higher-income taxpayers. Specifically, the applicable limitation amount is reduced by 30 percent of the excess of the taxpayer's modified adjusted gross income over the "threshold amount" (or, in the case of a married individual filing a separate return, one-half of the threshold amount). Regardless of the taxpayer's modified AGI, the applicable limitation amount is not reduced below $10,000. The applicable limitation amount, according to § 164(b)(7)(B), is as follows:

[1] For 2027 through 2029, § 164(b)(7)(A)(iii) provides that the applicable limitation amount is 101% of the amount in effect for the previous year. The figures in the table for 2027 through 2029 are calculated using this guidance.

Taxable Year Beginning in	Threshold Amount[2]
2025	$500,000
2026	$505,000
2027	$510,050
2028	$515,151
2029	$520,302

As an illustration of the phaseout, if a taxpayer's modified AGI in 2025 is $600,000 or higher, the taxpayer's deduction for state and local taxes will be reduced to $10,000:

2025-All Filing Statuses Other Than MFS	
Applicable limitation amount:	$40,000
Assumed modified AGI:	$600,000
Threshold amount:	$500,000
Excess of MAGI over threshold amount:	$100,000
Reduction in applicable limitation amount (30% of excess of MAGI over threshold amount):	$30,000
Limit on deduction for state and local taxes:	$10,000

If a taxpayer's filing status is married filing separately, and if the taxpayer's modified AGI in 2025 is $283,333 or higher, the taxpayer's deduction for state and local taxes will be reduced to $10,000:

2025-Filing Status of MFS	
Applicable limitation amount:	$20,000
Assumed modified AGI:	$283,333
Threshold amount:	$250,000
Excess of MAGI over threshold amount:	$33,333
Reduction in applicable limitation amount (30% of excess of MAGI over threshold amount):	$10,000
Limit on deduction for state and local taxes:	$10,000

The limitation described above does *not* affect the deduction of state or local property taxes or sales taxes that are paid or accrued in carrying on a trade or business or an income-producing activity (i.e., an activity described in § 212) that are properly deductible on Schedules C, E, or F. For example, property taxes imposed on residential rental property located in the U.S. continue to be deductible without limitation on Schedule E. As under current law, an individual cannot deduct

[2] For 2027 through 2029, § 164(b)(7)(B)(ii)(III) provides that the applicable limitation amount is 101% of the amount in effect for the previous year. The figures in the table for 2027 through 2029 are calculated using this guidance.

state or local income taxes as a business expense even if the individual is engaged in a trade or business as a sole proprietor. *See* Reg. § 1.62-1T(d).

5. ♪♫Baby, you can drive my car, Yes, I'm gonna be a star, And maybe I'll [get a deduction for my car loan interest.]♫♪ Individuals can deduct up to $10,000 of interest on loans incurred after 2024 to acquire new cars, at least through 2028. The 2025 One Big Beautiful Bill Act, § 70203, added new § 163(h)(4) of the Code (and renumbered existing § 163(h)(4) as § 163(h)(5)). The effect of this amendment is to allow an individual to deduct a limited amount of "qualified passenger vehicle loan interest."

Background. Section 163(a) allows as a deduction "all interest paid or accrued within the taxable year on indebtedness." For taxpayers other than corporations, however, § 163(h)(1) provides that no deduction is allowed for "personal interest." Personal interest is defined in § 163(h)(3) as all interest other than specific categories of interest, such as interest properly allocable to a trade or business, qualified residence interest, and certain student loan interest. New § 163(h)(4) excludes "qualified passenger vehicle loan interest" from the category of personal interest. The effect is to make qualified passenger vehicle loan interest deductible.

Qualified passenger vehicle loan interest. The term "qualified passenger vehicle loan interest" is defined in § 163(h)(4)(B) as interest paid or accrued on indebtedness incurred by the taxpayer after December 31, 2024, for the purchase of an "applicable passenger vehicle" for personal use. To qualify, the loan must be secured by a first lien on the vehicle. An "applicable passenger vehicle" is defined in § 163(h)(4)(D) as any vehicle the original use of which commences with the taxpayer and that meets certain other requirements. This requirement makes clear that the deduction is not available for interest on loans used to acquire used cars and instead is available only for loans used to acquire new cars. The other requirements are that the vehicle must (1) be manufactured primarily for use on public streets, roads, and highways, (2) have at least two wheels, (3) be a car, minivan, van, sport utility vehicle, pickup truck, or motorcycle, (4) be treated as a motor vehicle for purposes of title II of the Clean Air Act, (5) have a gross vehicle weight of less than 14,000 pounds, and (6) have its final assembly occur within the United States. Finally, the vehicle identification number, or VIN, of the vehicle must be included on the taxpayer's return in order to qualify for the deduction. According to § 163(h)(4)(E)(ii), if interest on indebtedness meets the definition of qualified passenger vehicle loan interest, any refinancing of such indebtedness is treated in the same way as the refinanced indebtedness to the extent it does not exceed the amount of the refinanced indebtedness.

Interest that does not qualify for the deduction. According to § 163(h)(4)(B)(ii), interest paid on the following types of loans does *not* qualify for the deduction: (1) a loan to finance fleet sales, (2) a loan for the purchase of a commercial vehicle not for personal use, (3) any lease financing, (4) a loan to finance a vehicle with a salvage title, (5) a loan to finance the purchase of a vehicle to be used for scrap or parts.

Limitations on the deduction. Section 163(h)(4)(C) provides that the amount treated as qualified passenger vehicle loan interest cannot exceed $10,000. This limit is reduced by $200 for each $1,000 by which the taxpayer's modified adjusted gross income exceeds $100,000 ($200,000 for joint returns). This means that the deduction is completely phased out when a taxpayer's modified AGI reaches $150,000 ($250,000 for joint returns). These amounts are not adjusted for inflation.

Deduction available to non-itemizers. The deduction for qualified passenger vehicle loan interest is *not* an itemized deduction on Schedule A. Instead, it is a deduction that is available regardless of whether the taxpayer itemizes deductions or takes the standard deduction. The deduction necessarily will be taken on Form 1040, similar to the existing deduction for qualified business income under § 199A.

Reporting by businesses receiving interest. Form 1098-CAR? The legislation adds new § 6050AA, which requires businesses receiving $600 or more of interest that is qualified passenger vehicle loan interest to report specific information to the IRS and to furnish a written statement to the taxpayer paying the interest. This statement presumably will be similar to the statements taxpayers commonly receive for mortgage interest paid (Form 1098).

State tax considerations. Although the legislation allows deduction of qualifying interest on car loans (subject to the limitations and requirements described above), states that impose an income tax on individuals may not allow the deduction, which means that such interest would not be deductible for state tax purposes.

Effective date. New § 163(h)(4) applies to indebtedness incurred after December 31, 2024. According to § 163(h)(4)(A), the deduction is allowed for taxable years beginning after December 31, 2024, and before January 1, 2029.

E. Divorce Tax Issues

F. Education

VI. CORPORATIONS

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IX. EXEMPT ORGANIZATIONS AND CHARITABLE GIVING

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H. Miscellaneous

1. Maybe we should call it Form 1099-NVM. After years of delayed implementation of the reduced reporting thresholds for Form 1099-K enacted in the American Rescue Plan (2021), Congress has restored the reporting thresholds to their original amounts. The 2025 One Big Beautiful Bill Act, § 70432, amended § 6050W(e) to restore the reporting thresholds for Form 1099-K issued by third party settlement organizations to those that existed before Congress's reduction of the thresholds in the American Rescue Plan (March 2021).

Background. In 2008, Congress added § 6050W to the Code. Section 6050W became effective for the 2011 tax year. Generally, § 6050W requires payment card companies and online marketplaces (aka third-party settlement organizations or TPSOs) to report on Form 1099-K payments processed for goods and services. Third-party settlement organizations include eBay, gig-worker platforms like Uber and Lyft, and payment apps such as Venmo and Cash App (but not Zelle). There has never been a de minimis exception for payment card transactions, i.e., a payment card company must report all transactions processed for a participating payee. As enacted, § 6050W(e) set forth a de minimis exception under which third-party settlement organizations were required to issue Forms 1099-K only when gross payments to a participating payee for goods and services during the calendar year exceeded $20,000 *and* there were more than 200 transactions with that payee. The American Rescue Plan (March 2021) lowered the de minimis exception for third-party settlement organizations to $600 with no minimum number of transactions, effective in 2022. In Notice 2023-10, 2023-3 I.R.B. 403 (12/23/22), the IRS announced that 2022 would be a transition period for implementation of the reduced reporting threshold, i.e., the reduced threshold did not apply for 2022. Similarly, in Notice 2023-74, 2023-51 I.R.B. 1484 (11/21/23), the IRS announced that the reduced reporting thresholds for Form 1099-K enacted by the American Rescue Plan (March 2021) would not apply for 2023. For 2024, the IRS announced a transition period in Notice 2024-85, 2024-51 I.R.B. 1349 (11/27/24), during which third-party settlement organizations were not required to report payments in settlement of third-party network transactions with respect to a participating payee unless the gross amount of aggregate payments to be reported exceeded $5,000, regardless of the number of such transactions.

The OBBA's changes to the reporting thresholds. The OBBA amended § 6050W(e) to provide the original de minimis exception under which third-party settlement organizations are required to issue Forms 1099-K only when gross payments to a participating payee for goods and services during the calendar year exceed $20,000 *and* there are more than 200 transactions with that payee. This change is effective as if included in the American Rescue Plan (March 2021).

The OBBA's changes to back-up withholding. Section 3406(a) requires certain payors to perform backup withholding by deducting and withholding income tax from a reportable payment when, among other circumstances, the payee fails to furnish the payee's Taxpayer Identification Number (TIN) to the payor or the IRS has notified the payor that the TIN furnished by the payee is incorrect. Pursuant to § 3406(b)(3)(F), a reportable payment includes payments made by a third-party settlement organization that are required by § 6050W to be shown on a Form 1099-K. Section 3406(b)(4) provides that whether payments made in settlement of payment card transactions or third party network transactions are subject to withholding under section 3406 is determined without regard to the monetary thresholds found in § 6050W. *See also* Reg. § 31.3406(b)(3)-5(b). In other words, the monetary threshold is considered solely for determining whether a TPSO has an information reporting obligation under § 6050W for payments made to a payee. However, in Notice 2011-42, 2011-23 I.R.B. 866, the IRS announced that no back-up withholding is required by a TPSO unless the aggregate number of transactions between the TPSO and a payee exceeds 200 within a calendar year. (According to Notice 2011-42, the monetary threshold for information reporting, which originally was $20,000, is not relevant in determining whether backup withholding is required.) In section 70432(b) of the OBBA, Congress amended Code § 3406(b) to add § 3406(b)(8). New § 3406(b)(8) provides that payments made in settlement of third party network transactions are subject to withholding under section 3406 only if the de minimis thresholds of § 6050W(e) are satisfied, i.e., when gross payments to a participating payee for goods and services during the calendar year exceed $20,000 *and* there are more than 200 transactions with that payee. This change is effective for calendar years beginning after December 31, 2024.

- *Note:* in Notice 2024-85, 2024-51 I.R.B. 1349 (11/27/24), the IRS announced that, for calendar year 2024, the IRS would *not* assert penalties under §§ 6651 or 6656 for a TPSO's failure to withhold and pay backup withholding tax during the calendar year. The notice reminded TPSOs that performed backup withholding during 2024 to file Form 945, *Annual Return of Withheld Federal Income Tax*, and issue Form 1099-K with the amount withheld in box 4. Notice 2024-85 also obsoleted Notice 2011-42, which announced that no back-up withholding was required by a third-party settlement organization unless the aggregate number of transactions between the TPSO and a payee exceed 200 within a calendar year.

XI. WITHHOLDING AND EXCISE TAXES

XII. TAX LEGISLATION

XIII. TRUSTS, ESTATES & GIFTS