Checkpoint Exclusive: Executive Summary of the 2025 Tax Act

By Federal Tax Update Staff

Executive Summary of the 2025 tax Act

In a series of marathon Senate and House sessions leading up to the July 4th holiday, Congress passed the Act (formerly referred to as the One Big Beautiful Bill or OBBB). The Act makes the 2017 Tax Cuts and Jobs Act tax cuts permanent. The Act provides additional tax relief, including enhanced child tax credits, standard deductions, and small business deductions. It introduces new tax breaks for workers (e.g., no tax on tips, overtime, or auto loan interest for U.S.-made cars) and families (e.g., expanded childcare credits, school choice credits, senior exemptions, and savings accounts for children).

The legislation also restores and makes permanent many business provisions, such as full expensing for R&D and capital investments, and enhances Opportunity Zone incentives. It cuts Inflation Reduction Act spending, eliminates certain tax credits (like for commercial EVs), and promotes domestic energy production, including nuclear.

This Executive Summary provides an overview of the major provisions of the Act.

Extension and Enhancement of Reduced Income Tax Rate

Rate reductions, bracket changes. Under pre-Act law, for tax years 2018 through 2025, the Tax Cuts and Jobs Act (TCJA) temporarily modified the number of income tax brackets and reduced the income tax rates for individuals and trusts and estates. For individuals, the rates and brackets are: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. For trusts and estates, the rates and brackets are: 10%, 24%, 35% and 37%.

After 2025, the pre-TCJA rates and brackets were scheduled to apply once again. For individuals, those

would be rates and brackets of 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%, and for trusts and estates, rates and brackets of 15%, 28%, 31%, 36% and 39.6%.

In addition, for 2018-2025, the TCJA expanded the income range for each tax rate bracket, and eliminated most of the "marriage penalty" in the individual tax rate structure (i.e., the result where married joint filers end up paying more tax than they would as single filers) by setting the joint filing tax brackets at twice the single tax bracket amounts, other than for the top tax bracket.

The TCJA didn't change the net capital gains and qualified dividends tax rates (of 0%, 15%, and 20%), but did modify the "breakpoints" at which those rates apply for 2018 through 2025.

This section makes the TCJA tax rate reductions and bracket changes, marriage penalty fix, and capital gains/qualified income breakpoints permanent. (Act Sec. 70101(a) amends **Code Sec. 1(j)**)

Indexing for inflation. The TCJA also modified the rules for the inflation indexing of the income tax brackets to require that the brackets be adjusted annually for inflation each tax year using the percentage by which the Chained Consumer Price Index for all Urban Consumers ("chained CPI") for the prior year exceeds the chained CPI for 2017.

For tax years beginning after December 31, 2025, the section makes the base tax year for measuring the prior year chained CPI, 2016 (instead of 2017) for the 10% and 12% individual tax brackets, and the 10% trust and estate tax bracket. The base year remains 2017 for the 22%, 24%, 32%, 35%, and 37% individual tax rate brackets, and the 24%, 35% and 37% trust and estate tax brackets. (Act Sec. 70101(b) amends Code Sec. 1(j)(3)(B)(i))

The section is effective for tax years beginning after December 31, 2025. (Act Sec. 70101(c))

Extension and Enhancement of Increased Standard Deduction

The standard deduction is the sum of the basic standard deduction based on filing status and the additional standard deduction amounts for age 65 and older, and/or blindness. These amounts are indexed annually for inflation.

Under pre-Act law, for tax years 2018 through 2025, the TCJA temporarily increased the basic standard deduction amounts, but not the additional standard deduction.

For tax years 2018 through 2025, the basic standard deduction statutory amounts (before any inflation adjustment) are: $24,000 for joint filers and surviving spouses (computed as 200% of the single filers' amount); $18,000 for heads of household; and $12,000 for singles and marrieds filing separately.

The TCJA also modified the rules for the inflation indexing of the statutory base standard deduction amounts to require that they be adjusted annually for inflation each tax year using the percentage by which the Chained Consumer Price Index for all Urban Consumers ("chained CPI") for the prior year exceeds the chained CPI for 2017. (For 2025, the inflation-adjusted basic standard deduction amounts

are: $30,000 for joint filers and surviving spouses; $22,500 for heads of household; and $15,000 for singles and marrieds filing separately.)

For tax years beginning after Dec. 31, 2025, the basic standard deduction amounts were scheduled to revert to the pre-TCJA statutory amounts. Those un-inflated-adjusted amounts were: for a joint returnor surviving spouse, 200% of the dollar amount in effect for an unmarried individual; for a head of household, $4,400; and for a singleor married-filing-separate return, $3,000.

This section increases the basic standard deduction statutory amounts for tax years beginning after 2025 (Act Sec. 70102(c)) to: $31,500 for joint filers and surviving spouses (computed as 200% of the single filers' amount); $23,625 for heads of household; and $15,750 for singles and marrieds filing separately. (Act Secs. 70102(a), 70102(b)(1) and 7010(b)(2) amend **Code Sec. 63(c)(7)**)

The section also modifies the inflation adjustment for the basic standard deduction for tax years beginning after 2025, to make the base tax year for measuring the prior year chained CPI, 2024 (instead of 2017). (Act Secs. 70102(b)(1), 70102(b)(2), 70102(b)(3) and 70102(b)(4) amend **Code Sec. 63(c)(7)(B)(ii)**)

The section is effective for tax years beginning after December 31, 2024. (Act Sec. 70102(c))

Extension and Enhancement of Increased Child Tax Credit; Credit for Other Dependents Extended

Child tax credit. Under pre-Act law, for tax years 2018 through 2025, the TCJA temporarily modified the child tax credit (CTC) to: increase the credit amount to $2,000 per qualifying child (without adjustment for inflation); increase the refundable portion of the credit (the "additional child tax credit") to $1,400, adjusted annually for inflation (using chained CPI computed using 2017 as the base year) ($1,700 for 2025); decrease the earned income threshold at which taxpayers may qualify to claim the credit, to $2,500 (without adjustment for inflation); and increase the modified adjusted gross income (MAGI) threshold amounts at which the credit begins to phase out to $400,000 for joint filers, and $200,000 for all other filers (without adjustment for inflation).

In addition, for 2018 through 2025, to claim the credit, the TCJA requires that the taxpayer include the qualifying child's Social Security Number (SSN), issued on or before the due date of the return, on the return.

For tax years after 2025, the CTC rules were scheduled to revert to pre-TCJA levels: a $1,000 per qualifying child CTC amount; a maximum $1,000 refundable credit amount; an earned income threshold of $3,000; and MAGI phase-out thresholds of $110,000 for joint filers, $75,000 for singles or heads of household, and $55,000 for marrieds filing separately--none of which are indexed for inflation.

And, post-2025, the qualifying child's name and taxpayer identification number, either an SSN or an Individual Taxpayer Identification Number (ITIN) issued on or before the due date of the return, would have to be included on the tax return.

This section, for tax years after 2025, makes all of the TCJA changes to the CTC permanent (Act Sec. 70104(a) amends **Code Sec. 24(h)(1)**), with the following modifications: (1) the nonrefundable CTC amount is increased to $2,200 per qualifying child (Act Sec. 70104(a)(2) amends **Code Sec. 24(h)(2)**), and is indexed for inflation for tax years after 2025, using chained CPI computed using 2024 as the base year (Act Sec. 70104(c) amends **Code Sec. 24(i)**); and (2) to claim the credit, the taxpayer is required to include on the tax return both the taxpayer's SSN (or for a joint return the SSN of at least one spouse) and the qualifying child's SSN. A qualifying SSN for these purposes is an SSN issued by the Social Security Administration to a U.S. citizen or national or pursuant to a provision of the Social Security Act relating to lawful admission for employment in the U. S. (Act Sec. 70104(b) amends **Code Sec. 24(h)(7)**)

Credit for other dependents. Under current law, for tax years 2018 through 2025, the TCJA provides a temporary $500 nonrefundable credit (not adjusted for inflation) for dependents who don't qualify for the CTC--including children aged 17 or over, children with no SSN, and qualified dependents who aren't children (e.g., parents or siblings). The credit is available for dependents who are U.S. citizens, U.S. nationals, or U.S. resident aliens who have either an SSN or an ITIN. The credit for other dependents phases out at MAGI of $400,000 for married joint filers, and $200,000 for all other filers (without adjustment for inflation). For tax years after 2025, the $500 credit would have expired.

This section makes the credit for other dependents permanent. The credit continues not to be adjusted for inflation. (Act Sec. 70104(a) amends **Code Sec. 24(h)(1)**)

Omission of correct SSN on a return. Omission of a correct SSN on a return under the **Code Sec. 24** child and other dependent credit rules will be treated as a mathematical or clerical error that IRS can summarily assess. (Act Sec. 70104(e) amends **Code Sec. 6213(g)(2)(I)**)

The section is effective for tax years beginning after December 31, 2024. (Act Sec. 70104(f))

Individual SALT Limitation

The TCJA capped the individual deduction for state and local taxes at $10,000 ($5,000 for marrieds filing separately). (**Code Sec. 164(b)(6)**) That cap was slated to sunset December 31, 2025.

The Act retroactively increases the individual SALT deduction cap from $10,000 to $40,000 for 2025. It further increases the cap to $40,400 in 2026, and by an additional 1% in 2027, 2028, and 2029.

The Act phases out the deduction for taxpayers with modified adjusted gross income (MAGI) greater than $500,000 in 2025. The phaseout threshold increases to $505,000 in 2026, and by an additional 1% after.

For higher-income taxpayers, in tax years before January 1, 2030, the cap is reduced by 30% of the excess of the taxpayer's MAGI over the threshold amount. The Act provides, however, that the deduction will not be reduced below $10,000.

Under the Act, the individual SALT deduction cap will revert to $10,000 beginning in 2030.

The provision is effective for tax years beginning after December 31, 2024. (Act Sec. 70120, amends **Code Sec. 164(b)(6)**)

Extension and Increase of Basic Exclusion Amount

U.S. citizens and residents are allowed a unified credit of the applicable credit amount against any estate and gift tax imposed on transfers during life or at death. The applicable credit amount is the amount of tentative tax that would be imposed on transfers that value the applicable exclusion amount. For estates of decedents dying and gifts made after 2009, the applicable exclusion amount is the sum of the basic exclusion amount and, if applicable, the deceased spousal unused exclusion amount.

Under pre-Act law, the basic exclusion amount was $5 million under **Code Sec 2010(c)(3)(A)** . For estates of decedents dying or gifts made after December 31, 2017 through December 31, 2025, the basic exclusion amount was increased to $10 million under **Code Sec. 2010(c)(3)(C)** . (**Code Sec. 2010(c)(3)**)

Effective 2026, the basic exclusion amount will increase to $15 million under **Code Sec. 2010(c)(3)(A)** . The basic exclusion amount is adjusted for inflation after 2025 under **Code Sec. 2010(c)(3)(B)** . **Code Sec. 2010(c)(3)(C)** is removed. (Act Sec. 70106(a))

This provision is effective for estates of decedents dying and gifts made after December 31, 2025. (Act Sec. 70106(b))

Pease Limitation Repealed

Pre-TCJA, taxpayers were subject to an overall limitation on itemized deductions, known as the "overall limitation on itemized deductions," the "3%/80% rule," or the "Pease limitation." (**Code Sec. 68**) Under the Pease limitation, if an individual's adjusted gross income (AGI) exceeded the inflation-adjusted applicable amount, then the amount of itemized deductions otherwise allowed for the tax year was reduced by the lesser of: (a) 3% of the excess of AGI over the applicable amount, or (b) 80% of the amount of itemized deductions otherwise allowable for the tax year.

Pre-Act, the Pease limitation was set to apply again in tax year 2026. Applicable thresholds were $250,000 for single filers, $275,000 for head of household filers, and $300,000 for married joint filers, all adjusted for inflation.

The Act permanently repeals the Pease limitation and instead generally applies a 2% reduction. Under the Act, itemized deductions will be reduced by 2/37 of the lesser of (a) the amount of the deductions or (b) the taxable income that exceeds the dollar amount at which the 37% rate bracket begins.

The Act excludes from the limitation the **Code Sec. 199A** deduction for qualified business income.

The provision applies to tax years beginning after December 31, 2025. (Act Sec. 70111, amends **Code**

Sec. 68)

Individual Alternative Minimum Tax Exemption Amounts Permanently Increased, Phaseout Thresholds Modified

An individual's alternative minimum tax (AMT) liability is calculated by subtracting an exemption amount from the individual's alternative minimum taxable income (AMTI). The exemption amounts are phased out above certain income thresholds.

The TCJA increased individual AMT exemption amounts and exemption phaseout thresholds through December 31, 2025. (**Code Sec. 55(d)(4)**) The statutory AMT exemption dollar amounts for 2017 to 2025 are $70,300 ($109,400 for marrieds filing jointly), adjusted for inflation. The amount is reduced by 25% of the amount by which AMTI exceeds $1,000,000, adjusted for inflation (or 25% of the amount by which AMTI exceeds 50% of the married-filing-jointly phaseout threshold amount for individuals or marrieds filing separately).

Under the Act, individual AMT exemption amounts are increased permanently. In addition, the exemption phaseout threshold is set at $500,000 (or $1,000,000 for joint returns) in 2026, and indexed for inflation. The Act also increases the phase-out rate for higher-income taxpayers from 25% to 50%.

This provision applies to tax years beginning after December 31, 2025. (Act Sec. 70107, amends **Code Sec. 55(d)(4)**)

Repayment Cap on Excess Advance PTC Payments Is Eliminated

Taxpayers can elect to have advance payments of their estimated premium tax credit (PTC) made directly by IRS to the insurer. Taxpayers who choose this option must reconcile the advance payments with the actual credit (on Form 8962) when they file their returns. If the advance payments exceed the PTC to which the taxpayer is entitled for the tax year, the taxpayer generally owes the excess amount as an additional income tax.

Under pre-Act law, a "repayment cap" limited the additional tax to an applicable dollar amount, for taxpayers whose household income was less than 400% of the federal poverty line (FPL) for a family of the size involved.

For tax years beginning in 2025, the applicable dollar amounts are $750 if household income is less than 200% of the FPL, $1,950 if household income is at least 200% but less than 300% of the FPL, and $3,250 if household income is at least 300% but less than 400% of the FPL. For unmarried individuals other than surviving spouses or heads of household, the applicable dollar amounts are one-half of the above amounts.

The Act strikes **Code Sec. 36B(f)(2)(B)** , which provides for the repayment cap. (Act Sec. 71305(a) amends **Code Sec. 36B(f)(2)**)

Observation: As a result, all taxpayers will have to repay their excess advance PTC payments in their

entirety.

This change is effective for tax years beginning after December 31, 2025. (Act Sec. 71305(c))

Termination of Deduction for Personal Exemptions Other Than Temporary Senior Deduction

Historical personal exemption deduction. Under Internal Revenue Code (IRC) 151, taxpayers were historically allowed to claim a personal exemption deduction for themselves, their spouse, and qualifying dependents. For tax years prior to 2018, this deduction reduced taxable income by a set amount per eligible individual.

Suspension of the deduction by the TCJA. The Tax Cuts and Jobs Act (TCJA) of 2017 suspended the personal exemption deduction for tax years 2018 through 2025. During this period, the deduction amount was set to zero for most taxpayers, but the underlying statutory language remained in place, allowing for the deduction to return after 2025 unless further legislative action was taken.

Permanent elimination and introduction of senior deduction. Section 70103 of the Act amends Code Sec. 151(d)(5) to permanently eliminate the personal exemption deduction for most taxpayers. However, this section also introduces a new, temporary deduction specifically for seniors.

Details of the senior deduction. Taxpayers aged 65 or older-and their spouses, if filing jointly-can claim a $6,000 deduction per qualified individual for tax years beginning before January 1, 2029 (i.e., tax years 2025-2028). This senior deduction is reduced by 6% (but not below zero) for the adjusted gross income that exceeds $75,000 (or $150,000 for joint filers).

Social Security Number requirement. To claim the deduction, the taxpayer must include the qualifying individual's Social Security number (SSN) on the return. The law amends Code Sec. 6213(g)(2) to treat the omission of a correct SSN for the senior deduction as a mathematical or clerical error, allowing the IRS to disallow the deduction without a formal audit.

Effective date. These changes apply to tax years beginning after December 31, 2024 (Act Section 70103 amendsCode Sec. 151(d)(5)).

No Tax on Car Loan Interest

Under pre-Act law, individual taxpayers cannot deduct 'personal interest' such as interest on loans used to purchase cars for personal use.

The Act provides individuals (including non-itemizers) with a temporary tax deduction for interest paid on loans used to purchase a new personal-use passenger vehicle.

For tax years 2025-2028, individuals can deduct up to $10,000 of car loan interest per year, subject to a phase-out starting at $100,000 modified adjusted gross income (MAGI) for single filers ($200,000 for joint filers). To qualify for the deduction:

The debt must be incurred after December 31, 2024, for the purchase of a new personal use vehicle, secured by a first lien on the vehicle, and the vehicle's original use must begin with the taxpayer.

The vehicle must be a car, minivan, van, SUV, pickup truck, or motorcycle, with a gross vehicle weight rating under 14,000 pounds, and final assembly of the vehicle must occur in the United States, and

The taxpayer must report the vehicle identification number (VIN) on their tax return.

In addition, the provision requires lenders to file information returns reporting interest received on qualified personal auto loans with the IRS.

The provision applies to qualified indebtedness incurred after December 31, 2024. (Act Sec. 70203(e) amends Code Sec. 613(h) and Code Sec. 6050AA).

Enhancement of Child andDependent Care Credit

Under pre-Act law, a taxpayer with one or more qualifying individuals, such as a child or other dependent, is eligible to claim a credit for employment-related expenses for child and dependent care. For this purpose, employment-related expenses are expenses for household services and expenses for the care of a qualifying individual.

This credit is calculated by multiplying the amount of qualifying expenses - a maximum of $3,000 if the taxpayer has one qualifying individual, and up to $6,000 if the taxpayer has two or more qualifying individuals - by the appropriate credit rate. The credit rate varies by the taxpayer's adjusted gross income, with a maximum credit rate of 35% that declines, as AGI increases, to 20% for taxpayers with AGI above $43,000.

The Act increases the maximum credit rate to 50%, reduced by one percentage point, but not below 35%, for each $2,000 or fraction thereof by which the taxpayer's AGI exceeds $15,000. For AGIs between $43,001 and $75,000 ($86,001 and $150,000, respectively, in the case of a joint return), the credit rate is 35%.

This credit rate is further phased down to 20% for AGI between $75,001 and $105,000 ($150,001 and $210,000, respectively, in the case of a joint return).

This provision is effective for tax years after December 31, 2025. (Act Sec. 70405 amends **Code Sec. 21**)

Credit of up to $1,700 For Contributions to Scholarship-Granting Organizations

Cash donations to scholarship-granting organizations may be deductible under **Code Sec. 170** .

The Act allows an individual taxpayer who is a U.S. citizen or resident an income tax credit for each tax year equal to the aggregate amount of qualified contributions of cash made by the taxpayer during the tax year to a scholarship-granting organization. (Code Sec. 25F(a), as added by Act Sec. 70411(a)(1)) A

scholarship-granting organization must be (among other things) a **Code Sec. 501(c)(3)** public charity and must maintain separate accounts for qualified contributions. (Code Sec. 25F(c)(5), as added by Act Sec. 70411(a)) Qualified contributions must be used to fund scholarships to eligible students solely within the state in which the organization is listed as a qualifying scholarship-granting organization. (Code Sec. 25F(c)(3), as added by Act Sec. 70411(a)) The credit is only allowed for organizations in states that elect to participate in this program and that provide IRS with a list of scholarship-granting organizations within the state. (Code Sec. 25F(g), as added by Act Sec. 70411(a))

The credit can't exceed $1,700 per taxpayer per tax year, and is reduced by the amount allowed as a credit on any state tax return of the taxpayer for qualified contributions made by the taxpayer during the tax year. Code Sec. 25F(b), as added by Act Sec. 70411(a)) An amount taken as a credit under this provision can't be counted as a charitable contribution for purposes of the **Code Sec. 170** deduction. (Code Sec. 25F(e), as added by Act Sec. 70411(a))

Credits in excess of the **Code Sec. 26(a)** limit on combined amount of nonrefundable personal credits can be carried forward for five years. (Code Sec. 25F(f), as added by Act Sec. 70411(a))

An eligible student for these purposes is an individual who is a member of a household with an income which, for the calendar year before the date of the application for a scholarship, is not greater than 300% of the area median gross income (as such term is used in **Code Sec. 42**), and is eligible to enroll in a public elementary or secondary school. (Code Sec. 25F(c)(2), as added by Act Sec. 70411(a))

An individual's gross income won't include any amounts provided to that individual or any dependent of that individual under a scholarship for qualified elementary or secondary education expenses of an eligible student which is provided by a scholarship-granting organization. (Code Sec. 139K, as added by Act Sec. 70411(b))

The credit is available in tax years ending after December 31, 2026. (Act Sec. 70411(c)(1)) The exclusion for scholarship amounts described above will apply to amounts received after December 31, 2026, in tax years ending after that date. (Act Sec. 70411(c)(2))

Extension of Rules for Treatment of Certain Disaster-Related Personal Casualty Losses

The Act extends the application of Section 304(b) of the Taxpayer Certainty and Disaster Tax Relief Act of 2020 by substituting the date of enactment for "the date of enactment of this Act" in each instance it appears.

The extended rules allow victims of qualified natural disasters to continue to claim personal casualty losses without needing to itemize their deductions. The standard deduction is increased by the amount of the net disaster loss, defined as the excess of qualified disaster-related personal casualty losses over personal casualty gains. Further, the 2020 Act raised the per-casualty floor from $100 to $500.

To qualify, the losses must arise in a qualified disaster area on or after the first day of the incident period of the qualified disaster. (Act Sec. 70438. Amends **Code Sec. 165(h)** .)

Social Security Number Requirement for American Opportunity and Lifetime Learning Credits

Under pre-Act law, **Code Sec. 25A** allows a taxpayer to qualify for the American Opportunity Tax Credit (AOTC) and the Lifelong Learning creditfor the education of an individual only if the taxpayer includes on their tax return the taxpayer identification number ("TIN") of that individual. (**Code Sec. 25A(g)(1)(A)**)

A taxpayer is allowed the AOTC only if the taxpayer includes the employer identification number ("EIN") of any institution to which qualified tuition and related expenses were paid. (**Code Sec. 25A(g)(1)(B)(iii)**)

Under the Act, to qualify for the AOTC, a taxpayer must include on the taxpayer's tax return their (or their spouse's) social security number ("SSN") or, for an individual other than the taxpayer or the taxpayer's spouse, that individual's name and social security number. (Act Sec. 70606(a)(1)(A))

The present-law EIN requirement is clarified to provide that a taxpayer must include on their tax return for that year, the EIN of any institution to which the taxpayer paid qualified tuition and related expenses taken into account in computing the credit. (Act Sec. 70606(a)(1)(B))

A taxpayer's omission of a required correct SSN or EIN is treated as a mathematical or clerical error for purposes of **Code Sec. 6213** . (Act Sec. 70606(b))

This provision is effective for tax years beginning after Dec. 31, 2025. (Act Sec. 70606(c))

Some Lawfully Present Aliens Made Ineligible for PTC

Under **Code Sec. 36B** , an applicable taxpayer who enrolls in a qualified health plan (QHP) through an Affordable Insurance Exchange is allowed a refundable premium tax credit (PTC). The PTC allowed to a taxpayer is based, in part, on the monthly premiums for one or more QHPs covering the taxpayer, the taxpayer's spouse, or the taxpayer's dependent(s) that were enrolled in through an Exchange.

Premiums attributable to individuals who aren't lawfully present in the U.S. aren't taken into account in computing the PTC. However, under current law, premiums attributable to individuals who are lawfully present in the U.S. are taken into account.

The Act amends this rule by introducing a new category of "eligible aliens." Under the Act, premiums attributable to individuals who are lawfully present in the U.S. but aren't eligible aliens aren't taken into account in computing the PTC. (Act Sec. 71301(a), amending **Code Sec. 36B(e)(1)**)

The Act defines an "eligible alien" as an alien who is lawfully present in the U.S. and who, for the entire enrollment period for which the PTC is claimed, is reasonably expected to be:

an alien lawfully admitted for permanent residence under the Immigration and Nationality Act (8 U.S.C. 110120 et seq.), i.e., a green card holder;

an alien who has been granted the status of Cuban and Haitian entrant, as defined in section 501(e) of

the Refugee Education Assistance Act of 1980 (Public Law 96-422), i.e., an individual granted parole as a Cuban-Haitian entrant; or

an individual who lawfully resides in the U.S. in accordance with a Compact of Free Association (COFA) referred to in section 402(b)(2)(G) of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (8 U.S.C. 1612(b)(2)(G)), i.e., an individual from Federated States of Micronesia, Republic of the Marshall Islands, and Republic of Palau who lives and works in the U.S. under a COFA. (Act Sec. 71301(b), amending **Code Sec. 36B(e)(2)**)

Observation. Under the Act, the PTC won't be available for premiums paid for individuals who are lawfully present in the U.S. but don't fall into one of the above three categories. These ineligible aliens include Deferred Action for Childhood Arrivals (DACA) recipients, temporary protected status (TPS) holders, and nonimmigrant visa holders.

The provision is effective for tax years beginning after Dec. 31, 2026. (Act Sec. 71301(e))

Exchange Must Verify Applicant's Eligibility to Enroll in QHP and Receive Advance PTC Payments-Post-2027 Tax Years

The premium tax credit (PTC) allowed to a taxpayer enrolled in an Exchange-purchased qualified health plan (QHP) is based, in part, on the premiums paid for "coverage months" during the tax year.

Under pre-Act law, a month is a "coverage month" for an individual if these three requirements are met:

(1) as of the first day of the month, the individual is enrolled in a QHP through an Exchange;

(2) the premium for coverage under the plan for the month is paid by the taxpayer or through advance PTC payments; and

(3) the individual isn't eligible for "minimum essential coverage," other than coverage in the individual market, for the full calendar month.

The Act imposes a new verification requirement on Exchanges. It provides that the term "coverage month" won't include, for any individual covered by a QHP enrolled in through an Exchange, any month beginning before the Exchange verifies the individual's eligibility (i) to enroll in the plan through the Exchange and (ii) for advance PTC payments.

Observation. If a month isn't a coverage month, the taxpayer won't be eligible for the PTC for that month.

The verification will be made using applicable enrollment information that the applicant will provide or verify. "Applicable enrollment information" includes affirmation of at least the following information, to the extent relevant in determining eligibility for plan enrollment and advance PTC payments:

- household income and family size.

- whether the individual is an eligible alien (i.e., a lawfully present alien who is eligible for the PTC, see Act Sec. 71301).
- any health coverage status or eligibility for coverage.
- place of residence.
- other information that the Treasury Secretary, in consultation with the Secretary of Health and Human Services (HHS), determines to be necessary for the verification.

The Act allows for verification of past months. Thus, a month that begins before the required verification will be treated as a coverage month if the Exchange verifies for that month, using applicable enrollment information provided or verified by the applicant, the individual's eligibility to have enrolled and for any advance payment.

An individual who fails to meet the verification requirements for a month will not, solely for that reason, be treated as ineligible to enroll in a QHP through an Exchange for that month.

The Treasury Secretary may waive application of the verification requirement in the case of an individual who enrolls in a QHP through an Exchange for one or more months of the tax year during a special enrollment period (SEP) provided by the Exchange based on a change in the individual's family size.

An Exchange may use any available data and any reliable third-party sources in collecting information for verification by the applicant.

In addition, the term "coverage month" will not include, for any individual covered by a QHP enrolled in through an Exchange, any month for which the Exchange does not meet, with respect to the individual, the requirements of 45 CFR 155.305(f)(4)(iii), as published in the Federal Register on June 25, 2025 (90 Fed. Reg. 27074), applied as though it applied to all plan years after 2025. (Act Sec. 71303(a), amending **Code Sec. 36B(c)**)

Observation. The cited reg contains a failure to file and reconcile (FTR) process under which Exchanges must determine a tax filer ineligible for advance PTC payments if: (1) HHS notifies the Exchange that the tax filer (or their spouse if the tax filer is a married couple) received advance payments for a prior year for which tax data will be utilized for verification of income, and (2) the tax filer or tax filer's spouse didn't comply with the requirement to file a federal income tax return and reconcile advance PTC payments for that year. While 45 CFR 155.305(f)(4)(iii) by its terms applies only for plan year 2026, the Act provision treats it as applying for all post-2025 plan years.

Pre-enrollment verification process required. The Act provides that the term "qualified health plan" will not include any plan enrolled in through an Exchange, unless the Exchange provides a pre-enrollment verification process through which any applicant may, beginning not later than August 1, verify with the Exchange the applicant's household income and eligibility for enrollment in the plan for plan years beginning in the following year. (Act Sec. 71303(b), amending **Code Sec. 36B(c)(3)(A)**)

These changes are effective for tax years beginning after Dec. 31, 2027. (Act Sec. 71303(c))

Limitation on Deduction for Qualified Residence Interest Extended

Home acquisition debt incurred by a taxpayer in acquiring a qualified residence (i.e., a principal residence and one other residence) generated qualified residence interest.

Pre-Act law. The TCJA temporarily lowered the deduction for qualified residence interest to $750,000 ($375,000 for marrieds filing separate returns). (**Code Sec. 163(h)(3)(F)**) The limitation was set to increase to $1 million, effective January 1, 2026.

The Act permanently lowers the deduction for qualified residence interest to $750,000 in home mortgage acquisition debt. It also permanently treats certain mortgage insurance premiums on acquisition indebtedness as qualified residence interest.

This provision applies to tax years beginning after December 31, 2025. (Act Sec. 70108, amends **Code Sec. 163(h)(3)(F)**)

Miscellaneous Itemized Deductions Terminated, Educator Expenses Excepted

Under the TCJA, individual miscellaneous itemized deductions were not available for tax years 2018 - 2025. (**Code Sec. 67(g)**) The limitation does not apply to itemized deductions listed under **Code Sec. 67(b)** .

Pre-Act, miscellaneous itemized deductions would have been available for tax years beginning in 2026.

The Act permanently suspends miscellaneous itemized deductions.

The Act also adds a deduction for unreimbursed employee expenses for eligible educators to the list of itemized deductions under **Code Sec. 67(b)** . Eligible educators include K - 12 teachers, instructors, counselors, interscholastic sports administrators and coaches, principals, and aides in a school for at least 900 hours during a school year. The deduction is available for equipment and supplementary materials used by eligible educators as part of an instructional activity.

This provision applies to tax years beginning after December 31, 2025. (Act Sec. 70110, amends **Code Sec. 67(g)**)

New Tax-Deferred Investment Accounts for Children

The Act creates a new tax-deferred investment account for children, called a "Trump account." Specifically, these accounts are eligible to receive contributions from parents, relatives, employers, and other taxable entities as well as non-profit and government entities. To be eligible for an account, the child must be a U.S. citizen and have a Social Security number (SSN). Trump account funds must be invested in a diversified fund that tracks an established index of U.S. equities and grow tax deferred.

Contributions: Contributions to a Trump account are limited to $5,000 annually of after-tax dollars. The $5,000 contribution limit is indexed for inflation.

Contributions provided to Trump accounts from tax exempt entities, such as private foundations, are not subject to the $5,000 annual limit. These contributions from unrelated third parties must be provided to all children within a qualified group (i.e. all children in a state, specific school district or educational institution, etc.). No additional contributions of any kind shall be made to Trump accounts after the beneficiary has attained age 18.

Distributions: Subject to some exceptions, Trump account holders may not take distributions until age 18.

Pilot Program: Under a newborn pilot program, for U.S. citizens born between January 1, 2025, and December 31, 2028, the federal government will contribute $1,000 per child into every eligible account.

If the IRS determines that an eligible individual does not have an account opened for them by the first tax return where the child is claimed as a qualifying child, the IRS will establish an account on the child's behalf. Parents have the option to opt out of **the** account.

This section is effective for tax years beginning after December 31, 2025. (Act Sec. 70204(e). Adding Code Sec. 530A, Code Sec. 128, Code Sec. 139J, and Code Sec. 6434)

Enhancement of Adoption Credit

Under pre-Act law, **Code Sec. 23** allowed taxpayers to claim a nonrefundable income tax credit for qualified adoption expenses incurred, up to a maximum of $17,280 per child.

Effective 2025, the adoption credit is enhanced to include a refundable portion of up to $5,000. (Act Sec. 70402(a)) This refundable amount will be adjusted for inflation annually, with the adjustments beginning in 2025 using a base year of 2024 for cost-of-living calculations. (Act Sec. 70402(b)) The provision clarifies that the refundable portion of the adoption credit will not be eligible for carryforward to subsequent years. (Act Sec 70402(c))

This provision is effective for tax years beginning after Dec. 31, 2024. (Act Sec. 70402(d))

Additional Expenses Treated as Qualified Higher Education Expenses for Purposes of 529 Accounts

The Act provides that tax-exempt distributions from 529 savings plans - tax-advantaged accounts that fund education expenses - apply to more expenses attributable to enrollment or attendance at an elementary or secondary public, private, or religious school.

The expanded list of eligible education expenses includes tuition; curriculum and curricular materials; books or other instructional materials; online educational materials; tuition for tutoring or educational classes outside of the home; fees for nationally standardized tests, advanced placement exams, and

college admission exams; fees for dual enrollment at higher education institutions; and educational therapies for students with disabilities provided by a licensed or accredited professional.

The Act increases the annual limit for 529 account distributions from $10,000 to $20,000. This limitation applies only to K-12 expenses.

The effective date for the expanded expenses applies to distributions made after the date of enactment, and the doubled limitation applies to tax years beginning after December 31, 2025. (Act Sec. 70413. Amending **Code Sec. 529(c)(7)** .)

Qualified Higher Education Expenses for Purposes of 529 Accounts

The Act allows 529 savings plan tax-exempt distributions to apply to "qualified postsecondary credentialing expenses."

Under new **Code Sec. 529(f)** , such expenses include tuition, fees, books, supplies, and equipment required for enrollment or attendance at a recognized postsecondary credential program. This also includes fees for testing or continuing education required to obtain or maintain a recognized postsecondary credential.

A recognized postsecondary credential program is one that: 1) is on a state list under the Workforce Innovation and Opportunity Act; 2) is listed in the public directory of the Web Enabled Approval Management System of the Veterans Benefits Administration; 3) prepares individuals for an exam required for a credential; or 4) is identified as reputable for obtaining a recognized postsecondary credential.

A recognized postsecondary credential means: any postsecondary employment credential program 1) accredited by the Institute for Credentialing Excellence, the National Commission on Certifying Agencies, or the American National Standards Institute; or 2) included in the Credentialing Opportunities On-Line directory maintained by the Department of Defense or by any branch of the Armed Forces.

Alternatively, credentials may be deemed industry recognized by the Secretary of Labor.

Recognized postsecondary credentials also include certificates of completion of an apprenticeship registered and certified with the Secretary of Labor; occupational or professional licenses issued or recognized at the state or federal government level; and credentials as defined in Section 3(52) of the Workforce Innovation and Opportunity Act.

This section applies to distributions made after the date of enactment. (Act Sec. 70414. Amends **Code Sec. 529**)

Individuals' Charitable Deductions: Floor of 0.5 % of AGI is Imposed, and 60%-of-AGI Ceiling for Certain Cash Gifts is Made Permanent

Under pre-Act law, no floor applies for individuals' charitable contribution deduction. (**Code Sec. 170**)

The Act provides for a floor of 0.5% of the taxpayer's contribution base (which is, generally, adjusted gross income, AGI) on the charitable deductions of individuals. Thus, an otherwise deductible charitable contribution must be reduced by 0.5% of an individual's contribution base for the tax year. The Act provides rules for the order in which the taxpayer's contributions are taken into account, and for carryforwards of contributions disallowed by the 0.5% floor. (Act Sec. 70425(a))

Under pre-Act law, individuals can't deduct more than a specified percentage of their "contribution base"-generally AGI-as a charitable deduction in any year. For contributions to "50% charities," an individual may deduct up to 50% of the contribution base-the "50% ceiling." (**Code Sec. 170(b)(1)(A)**) And a 60%, limit ("60% ceiling") applies to cash-only contributions by individuals to 50% charities. (**Code Sec. 170(b)(1)(G)**)

The rule providing for a 60% ceiling for cash gifts to 50% charities was slated to expire after 2025. (**Code Sec. 170(b)(1)(G)(i)**)

The Act makes permanent the 60% ceiling for cash gifts to 50% charities, and provides that a contribution of cash to a 50% charity is deductible to the extent that the total amount of contributions of cash to 50% charities doesn't exceed the excess of: (a) 60% of the taxpayer's contribution base for the tax year, over (b) the total amount of contributions to 50% charities for the tax year. (Act Sec. 70425(b))

Both the floor provision and the 60%-limit provision are effective for tax years beginning after Dec. 31, 2025. (Act Sec. 70425(c))

PTC Disallowed to Aliens Below Poverty Line Who Are Ineligible for Medicaid

To be eligible for the premium tax credit (PTC), a taxpayer must generally have household income of at least 100% of the federal poverty line for a family of the size involved (the "applicable poverty line").

However, under current law, this income threshold doesn't apply to an alien who is lawfully present in the U.S. if the taxpayer isn't eligible for Medicaid under Title XIX of the Social Security Act because of the taxpayer's status as an alien.

The Act eliminates this special income threshold rule for lawfully present aliens. (Act Sec. 71302(a), amending **Code Sec. 36B(c)(1)**)

Observation: As a result of this change, lawfully present aliens with income below the applicable poverty line will no longer be eligible for the PTC, even if the alien can't receive Medicaid coverage due to alien status.

This change is effective for tax years beginning after Dec. 31, 2025. (Act Sec. 71302(b))

PTC Disallowed for Certain Coverage Enrolled in DurIng Special Enrollment Period

Under **Code Sec. 36B** , applicable taxpayers who enroll in a qualified health plan (QHP) through an Affordable Insurance Exchange are allowed a refundable premium tax credit (PTC).

Under pre-Act law, a QHP for purposes of the PTC is a "qualified health plan" as defined by Sec. 1301(a) of the Patient Protection and Affordable Care Act (PPACA) (**PL 111-148** , 3/23/2010), except that it doesn't include a catastrophic plan described in PPACA Sec. 1301(e).

The Act adds to this definition that a QHP doesn't include any plan enrolled in during a special enrollment period (SEP) provided for by an Exchange:

on the basis of the relationship of the individual's expected household income to a percentage of the poverty line (or another amount) that the Secretary of Health and Human Services prescribes for purposes of the SEP, and

not in connection with the occurrence of an event or change in circumstances that the Secretary of Health and Human Services specifies for those purposes. (Act Sec. 71304(a), amending **Code Sec. 36B(c)(3)(A)**)

Observation. The federal marketplace (HealthCare.gov) and many state marketplaces currently provide a year-round SEP for taxpayers whose household income doesn't exceed 150% of the federal poverty line. This low-income SEP is available even if the taxpayer hasn't experienced a life event or change of circumstances, such as marriage, divorce, birth, etc. The Act eliminates this type of SEP by making such coverage ineligible for the PTC.

This change is effective for plan years beginning after Dec. 31, 2025. (Act Sec. 71304(b))

Extension and Modification of Limitation on Casualty Loss Deduction

The TCJA limited itemized deductions for personal casualty losses for tax years 2018 - 2025 to losses attributable to a federally declared disaster.

Pre-Act, that limitation was set to expire and an itemized deduction for uncompensated personal casualty losses would be available for losses resulting from fire, storm, shipwreck, or other casualty, or from theft after December 31, 2025. (**Code Sec. 165(h)**)

The Act permanently limits the deduction to personal casualty losses resulting from federally declared disasters and certain state-declared disasters.

The provision applies to tax years beginning after December 31, 2025. (Act Sec. 70109, amends **Code Sec. 165(h)(5)**)

Permanent Non-Itemizers' Charitable Deduction for Individuals

Under pre-Act law, no provision currently allows individuals to deduct charitable contributions without electing to itemize deductions. (**Code Sec. 170**)

The Act provides that non-itemizers may claim a charitable deduction, not in excess of $1,000 ($2,000 for a joint return). (Act Sec. 70424(a))

To qualify for the non-itemizers' charitable deduction, contributions must be in cash, must be made to a public charity, and must meet certain other requirements set forth in **Code Sec. 170(p)** . (**Code Sec. 170(p)**)

The non-itemizers' charitable deduction is a below-the-line deduction, deducted from adjusted gross income in arriving at taxable income. (**Code Sec. 63(b)(4)**)

The provision applies for tax years beginning after Dec. 31, 2025. (Act Sec. 70424(b))

Excise Tax on Certain Remittance Transfers

Under pre-Act law, there is no tax on remittance transfers for a U.S. sender of a payment to a recipient in a non-U.S. country.

The Act establishes a 1% excise tax on any remittance transfer, to be paid by the sender, to be collected by the remittance transfer provider and to be remitted quarterly to the Secretary of the Treasury. (Act Sec. 70604 (a); (b)(2))

A secondary liability is imposed on the remittance transfer providerto the extent that the tax is not collected from the sender. (Act Sec. 70604 (b)(3))

An exception from the imposition of the excise tax is available if the remittance transfer is withdrawn from a financial institution governed by Title 31, Chapter 53 or funded with a U.S.-issued debit or credit card. (Act Sec. 70604 (d)

Where appropriate, anti-conduit rules apply to recharacterize remittance transfers to prevent the avoidance of tax. (Act Sec. 70604 (f))

This provision is effective for transfers made after Dec. 31, 2025. (Act Sec. 70604(c))

Limitation on Wagering Losses

Pre-Act, losses from wagering transactions were deductible only to the extent of gains from such transactions. (**Code Sec. 165(d)**) For the 2018 - 2025 tax years, losses from wagering transactions included otherwise allowable deductions incurred in carrying on any wagering transactions.

The Act instead provides that for losses from wagering transactions, the deduction amount is 90% of the amount of losses in the tax year, to the extent of the gains from such transactions during the tax year.

The provision applies to tax years beginning after December 31, 2025. (Act Sec. 70114, amends **Code Sec. 165**)

Extension and Modification of Limitation on Deduction and Exclusion for Moving Expenses

Historical moving expense deduction. The federal moving expense deduction was first introduced in 1964 under the Revenue Act of 1964, codified in Internal Revenue Code (IRC) §217. It allowed

taxpayers to deduct reasonable expenses incurred when relocating for a new job, provided certain distance and time tests were met.

Suspension of the deduction by the TCJA. The Tax Cuts and Jobs Act (TCJA) of 2017 suspended the deduction for most taxpayers from 2018 through 2025, preserving it only for active-duty military members moving due to a permanent change of station. This suspension was implemented through IRC?217(k) and the related exclusion for employer-paid moving expense reimbursements under IRC §132(g).

Permanent disallowance for most taxpayers. Section 70113 of the Act makes permanent the suspension of the moving expense deduction (IRC §217) and exclusion (IRC?132(g)) for most taxpayers, which continues the policy originally enacted under the TCJA.

Limited exceptions for military and intelligence community. Under the TCJA, only active-duty members of the U.S. Armed Forces moving due to a military order and permanent change of station were allowed to claim the deduction or exclusion (IRC §217(g), IRC §132(g)). Section 70113 expands this exception to include employees and appointees of the U.S. intelligence community who relocate due to a change in assignment.

Effective date. These changes apply to tax years beginning after December 31, 2025, meaning the expanded eligibility for intelligence community members begins with the 2026 tax year (Act Section 70113, amending IRC §217(k) and §132(g)).

ABLE Account Contributions, Rollovers

Pre-Act, additional contributions to an Achieving a Better Life Experience (ABLE) account for employed individuals with disabilities were available through 2025. (**Code Sec. 529A(b)(2)(B)**) Additional contributions were limited to the lesser of the applicable federal poverty level for a one-person household in the prior year, or the beneficiary's compensation for the year.

Also pre-Act, beneficiaries who made qualified contributions to their ABLE accounts were eligible for the Saver's Credit. (**Code Sec. 25B(d)(1)**) In addition, tax-free rollovers from Section 529 qualified tuition programs to qualified ABLE programs were permitted. (**Code Sec. 529(c)(3)(C)(i)(III)**) Both provisions were slated to sunset December 31, 2025.

The Act permanently provides for additional contributions to ABLE accounts for employed individuals with disabilities. It also adjusts the base limit amount by one year for inflation. (Act Sec. 70115, amending **Code Sec. 529A(b)(2)(B)**)

The Act also permanently allows beneficiaries who make qualified contributions to their ABLE account to qualify for the Saver's Credit. It provides an additional calculation formula for qualified retirement contributions, elective deferrals, and voluntary employee contributions made in tax years before 2027. The Act also increases the credit amount to $2,100 beginning in the 2027 tax year. (Act Sec. 70116, amending **Code Sec. 25B(d)(1)**)

In addition, the Act permanently allows tax-free rollovers of amounts in Section 529 qualified tuition programs to qualified ABLE programs. (Act Sec. 70117, amending **Code Sec. 529(c)(3)(C)(i)(III)**)

The provisions, except for the Saver's Credit amount increase, apply for tax years beginning after December 31, 2025. The increase in the Saver's Credit amount is effective for tax years beginning after December 31, 2026.

Extension and Enhancement of Deduction for Qualified Business Income

Under the TCJA, specified non-corporate taxpayers could deduct 20% of qualified business income (QBI) from a partnership, S corporation, or sole proprietorship. The 20% deduction also applied to certain real estate investment trust dividends and publicly traded partnership income.

The Act sets the minimum deduction for active QBI at $400. It also provides that an applicable taxpayer must have a minimum of $1,000 QBI to claim the deduction. An "active qualified trade or business" means any qualified trade or business of the taxpayer in which the taxpayer "materially participates," as defined in **Code Sec. 469(h)** .

The Act increases the phase-in threshold for single filers from $50,000 to $75,000 and the joint filer threshold from $100,000 to $150,000. Inflation adjustments apply to the new minimum amounts for tax years beginning after 2026.

This section takes effect for tax years beginning after December 31, 2025. (Act Sec. 70105, amends **Code Sec. 199A**)

Bonus Depreciation Made Permanent at 100%

Code Sec. 168(k) provides additional first-year ("bonus") depreciation for qualified property. Before the Act, the applicable rate for bonus depreciation was being phased down to zero over multiple years. The Act permanently sets bonus depreciation at 100% (now informally stylized as 100% expensing).

Other than adjusting certain date criteria, the Act did not alter the types of property eligible for the **Code Sec. 168(k)** deduction. A limited transitional election is provided to apply the pre-Act phase-down rates instead of 100%.

This provision is effective for property acquired after Jan. 19, 2025 (Act Sec. 70301. Amending Code Secs. 168 and 460)

Allocation of Deductions to Foreign Source Net CFC Tested Income (Formerly Known as GILTI) for Foreign Tax Credit Purposes

The foreign tax credit is generally limited to a taxpayer's U.S. tax liability on its foreign source taxable income. This limitation is applied separately to specific categories of income, among them the global intangible low tax income (GILTI) category.

The Act, which renames GILTI to net CFC tested income (Act Sec. 70323), limits the deductions that may be allocated to income in the net CFC tested income category to (i) the deduction for net CFC tested income itself as well as for taxes imposed on that income and (ii) any other deductions directly allocable to net CFC tested income.Further, no amount of interest expense or R&E expense may be allocated to this category. Deductions which would have been allocated to the net CFC tested income category but for this provision must instead be allocated to U.S. source taxable income for purposes of the foreign tax credit limitation. (Act Sec. 70311(a))

This provision applies to tax years beginning after December 31, 2025. (Act Sec. 70311(c))

One Percent Floor for Deductions of Corporate Charitable Contributions

A corporation can deduct charitable contributions. The deduction can't exceed 10% of the corporation's taxable income (as computed without regard to the charitable contribution). Contributions in excess of that limit in any year can be carried forward and deducted over the next five years. **Code Sec. 170(b)(2)**

The Act provides that any otherwise allowable charitable contribution by a corporate taxpayer for any tax year (other than certain qualified conservation contributions) will be allowed only to the extent that the aggregate of such contributions exceeds 1% of the taxpayer's taxable income for the tax year. (**Code Sec. 170(b)(2)(A)** , as amended by Act Sec. 70426(a))

Charitable contributions disallowed either for exceeding the 10% maximum or failing to reach the 1% threshold can be carried forward for five years. (**Code Sec. 170(d)(2)** , as amended by Act Sec. 70426(b))

Observation: The new 1% floor on corporate charitable contributions applies in addition to the 10%-of-taxable-income limitation discussed above.

This section is effective for tax years beginning after December 31, 2025. (Act Sec. 70426(d))

Increased 179 Expensing Limits - $2,500,000/$4,000,000

Code Sec. 179 allows immediate expensing deductions for certain business property. There is an annual statutory limit of $1,000,000, which is adjusted for inflation (pre-Act limit was $1,250,000 for 2025 property). That limit is phased down dollar-for-dollar once property placed in service during the year exceeds a statutory threshold of $2,500,000, which is adjusted for inflation (pre-Act threshold was $3,130,000 for 2025 property).

The Act increases the statutory expensing limit to $2,500,000 and increases the phase-down threshold to $4,000,000. Both statutory amounts will continue to be subject to future inflation adjustments.

This provision is effective for property placed in service in tax years beginning after Dec. 31, 2024. (Act Sec. 70306. Amending **Code Sec. 179**)

100% Depreciation Election for Real Property Used for Producing Tangible Personal Property

The Act adds new **Code Sec. 168(n)** . This provision allows a taxpayer to elect a 100% depreciation deduction for qualified production property (QPP) in the year it is placed in service. Adjusted basis is reduced accordingly. To be eligible, generally, QPP construction must start between January 20, 2025, and December 31, 2029; and the property must be placed in service in the U.S. (or a U.S. possession) before January 1, 2031.

QPP is nonresidential real property used as an integral part of a qualified production activity (QPA). QPP does not include property used for a variety of functions unrelated to QPAs, such as offices for sales or research activities. Additionally, QPP does not include Alternative Depreciation System (ADS) property, or property the taxpayer leases to another person.

QPP is subject to an original use requirement, but an exception is allowed if the property (i) was not previously used by the taxpayer, (ii) was not previously used in a QPA by another person, and (iii) was not acquired from a related party or certain non-recognition transactions.

A QPA is the manufacturing, production (agricultural and chemical only), or refining of a qualified product. A qualified product is tangible personal property other than food or beverages prepared in the same building as a retail outlet that sells those products.

QPP is subject to a 10-year recapture period. If QPP ceases to be used for a QPA, then **Code Sec. 1245** is applied as if there had been a disposition of the property.

There are coordination rules for the alternative minimum tax and for QPP that might also be eligible for other forms of additional first-year depreciation.

This provision is effective for property placed in service after the date of enactment of the Act. (Act Sec. 70307. Amending Code Secs. 168 and 1245)

Coordination of Business Interest Limitation with Interest Capitalization Provisions.

Code Sec. 163(j) limits the amount of interest a business can deduct, with certain exceptions. Any business interest not allowed as a deduction for any tax year may be carried forward indefinitely.

Under current IRS regulations, **Code Sec. 163(j)** applies after the application of provisions that subject interest expense to disallowance, deferral, capitalization or other limitations.

The Act provides that

The **Code Sec. 163(j)** limitation is calculated prior to the application of any interest capitalization provision.

After applying the limitation, any allowable interest is allocated first to amounts that would be capitalized and the remainder, if any, to amounts that would be deducted.

Any business interest carried forward is not subject to the interest capitalization provisions.

This provision applies to tax years beginning after December 31, 2025. (Act Sec. 70341, amends **Code Sec. 163(j)**)

Definition of Adjusted Taxable Income for Business Interest Limitation

A taxpayer's adjusted taxable income (ATI) is the taxable income of the taxpayer computed without regard to non-business income, gain, deduction or loss, any business interest income, any net operating loss, any 199A deduction, or depreciation, amortization or depletion or other adjustments required by the Treasury Secretary.

The Act adds a new item to the list of things that are added back to taxable income when calculating "adjusted taxable income" for the business interest deduction limit.

The new item includes the amounts included in gross income under sections 951(a), 951A(a), and 78 (and the portion of the deductions allowed under sections 245A(a) (by reason of section 964(e)(4)) and 250(a)(1)(B) by reason of such inclusions).

This change applies to tax years beginning after December 31, 2025. (Act Sec. 70342, amends **Code Sec. 163(j)(8)**)

Expansionof Qualified Small Business Stock Gain Exclusion

Under pre-Act law, **Code Sec. 1202** allowed noncorporate taxpayers that hold qualified small business stock (QSBS) for more than 5 years to potentially exclude all or part of the gain realized on the sale or exchange of that QSBS from gross income. There were a number of limitations on the exclusion, including a limitation that the aggregate amount of gain from dispositions of stock issued by the corporation that can be taken into account under the exclusion can't exceed the *greater* of (i) $10 million ($5 million for married taxpayers filing separate returns) minus the aggregate amount of eligible gain (gain on the sale or exchange of QSBS held for more than five years) excluded under **Code Sec. 1202** for earlier tax years and attributable to dispositions of stock issued by the corporation and (ii) ten times the taxpayer's aggregate adjusted bases in QSBS issued by the corporation (generally determined on the date the stock was originally issued) and disposed of by the taxpayer in the tax year. In addition, the aggregate gross assets of the issuing corporation (cash and the adjusted basis of its assets) generally must not have exceeded $50 million at any point before and immediately after the stock issuance (including amounts received in the issuance) at all times on or after the date of the enactment of the Revenue Reconciliation Act of 1993.

Under the Act, gain on the applicable percentage (50% for stock held for 3 years, 75% for stock held for 4 years, 100% for stock held for 5 years (Code Sec. 1202(a)(5) as amended by Act Sec. 70431(a)(2)) is eliminated for QSBS acquired after the applicable date (July 4, 2025. (Code Sec. 1202(a)(1)(B) as amended by Act Sec. 70431(a)(2)); (Code Sec. 1202(a)(6)(A) as amended by Act Sec. 70431(a)(3)) Stock that would otherwise be treated as having been acquired before, on, or after the applicable date, will be treated as acquired on the first day on which the stock was held by the taxpayer under the **Code**

Sec. 1223 holding period rules. (Code Sec. 1202(a)(6)(B) as amended by Act Sec. 70431(a)(3))

As under pre-Act law, the eliminated gain will not be treated as an alternative minimum tax preference. (**Code Sec. 57(a)(7)** as amended by Act Sec. 70431(a)(4)(A))

The limitation on the aggregate amount of gain from dispositions of stock issued by the corporation that can be taken into account under the exclusion is amended so that it is the applicable dollar limit. (**Code Sec. 1202(b)(1)(A)** as amended by Act Sec. 70431(b)(1) This limit is (i) for stock acquired by the taxpayer before the applicable date, $10 million minus the aggregate amount of eligible gain taken into account by the taxpayer for earlier tax years and attributable to dispositions of stock issued by the corporation and acquired by the taxpayer before, on, or after the applicable date and (ii) for stock acquired by the taxpayer after the applicable date, $15 million minus the aggregate amount of eligible gain taken into account by the taxpayer for earlier tax years and attributable to dispositions of stock issued by such corporation and acquired by the taxpayer before, on, or after the applicable date, plus the aggregate amount of eligible gain taken into account by the taxpayer for the tax year and attributable to dispositions of stock issued by such corporation and acquired by the taxpayer on or before the applicable date. (Code Sec. 1202(b)(4) as amended by Act Sec. 70431(b)(2))

The $15 million limit will be increased for inflation by multiplying the amount by the **Code Sec. 1(f)(3)** cost-of-living adjustment for the calendar year in which the tax year begins, determined by substituting "calendar year 2025" for "calendar year 2016" in **Code Sec. 1(f)(3)(A)(ii)** . If any increase under this rule is not a multiple of $10,000, the increase is rounded to the nearest multiple of $10,000. If for any tax year, the eligible gain attributable to dispositions of stock issued by a corporation and acquired by the taxpayer after the applicable date exceeds the applicable dollar limit, then notwithstanding the above inflation increase for any later tax year, the applicable dollar limit for the subsequent tax year will be zero. (Code Sec. 1202(b)(5) as amended by Act Sec. 70431(b)(2))

As under pre-Act law, the $10 million limit is reduced to $5 million for married taxpayers filing separate returns and the limitation for stock acquired by the taxpayer after the applicable date is similarly reduced by one-half of the dollar amount otherwise in effect. (**Code Sec. 1202(b)(3)(A)** as amended by Act Sec. 70431(b)(3))

The Act also increases the $50 million aggregate gross asset limit to $75 million and provides for an inflation adjustment to the $75 million limit similar to the above adjustment to the $15 million limit (with rounding off to the nearest $10,000). (**Code Sec. 1202(d)** as amended by Act Sec. 70431(c))

The provision eliminating gain on the applicable percentage described above is effective for tax years beginning after July 4, 2025, although the elimination of the tax preference for the exclusion for alternative minimum tax purposes is effective as if included in Section 2011 of the Creating Small Business Jobs Act of 2010. (Act Sec. 70431(a)(6))

The increase in the limitation on the aggregate amount of gain is effective for tax years beginning after July 4, 2025. (Act Sec. 70431(b)(4))

The increase in the gross asset limitation is effective for stock issued after July 4, 2025. (Act Sec. 70431(b)(4))

Enhancement of Advanced Manufacturing Investment Credit

Under current law, eligible taxpayers are allowed a 25% advanced manufacturing investment credit (also known as the semiconductor credit or the CHIPS credit) on qualified investments in an advanced manufacturing facility built before January 1, 2027. An advanced manufacturing facility is a facility that has a primary purpose of manufacturing semiconductors or semiconductor manufacturing equipment.

This section increases the credit to 35% for property placed in service after December 31, 2025. (Act Sec. 70308. Amends **Code Sec. 48D**)

Increased Information Reporting Threshold for Certain Payees

Under pre-Act law, **Code Sec. 6041(a)** requires all persons engaged in a trade or business to file an information return (typically, Form 1099-MISC or 1099-NEC) for payments totaling $600 or more made during a calendar year for specified types of income (including rent, salaries, wages, and other fixed or determinable income). **Code Sec. 6041A** imposes a similar reporting requirement for payments totaling $600 or more made as remuneration for services to persons other than employees. Backup withholding under **Code Sec. 3406(b)(6)** applies when payments meet or exceed the $600 threshold and the payee fails to provide a correct taxpayer identification number or otherwise fails to comply with applicable reporting requirements.

The Act increases the general reporting threshold and the reporting threshold for remuneration to non-employees from $600 to $2,000. (Act Secs. 70433(a) and 70433(c). Amend Code Secs. 6041(a) and 6041A(a)(2), respectively)

Beginning in 2027, the general reporting threshold is adjusted annually for inflation using the cost-of-living adjustment formula in **Code Sec. 1(f)(3)** , with calendar year 2025 as the base year. (Act Sec. 70433(b). Adds new **Code Sec. 6041(h)**) The Act aligns the reporting threshold under **Code Sec. 6041A** with this inflation-adjusted threshold (Act Sec. 70433(c). Amends **Code Sec. 6041A(a)(2)**)

The Act also revises the backup withholding rules to reflect the inflation-adjusted threshold established under new **Code Sec. 6041(h)** . (Act Sec. 70433(d). Amends **Code Sec. 3406(b)(6)**)

This provision is effective for payments made after December 31, 2025. (Act Sec. 70433(f). Amends **Code Sec. 6041** and **Code Sec. 6041A**)

Form 1099-K De Minimis Exception for Third-Party Networks Reverts to $20,000 plus 200 Transactions

Code Sec. 6050W requires third-party network transactions to be reported on Form 1099-K, and reportable transactions are potentially subject to backup withholding under **Code Sec. 3406** . There is a

de minimis exception which excludes aggregate transactions in a year below a certain threshold from the 1099-K reporting requirements. This exception does not extend to payment card transactions.

The American Rescue Plan Act of 2021 (ARPA) changed the statutory de minimis threshold to $600. That threshold was scheduled to start applying to 2022 transactions. However, the IRS allowed delayed implementation. Before the Act, under IRS guidance, reporting entities could follow a $2,500 de minimis exception for 2025 transactions.

The Act reverts the de minimis exception to the pre-ARPA threshold, which means that only aggregate transactions in a year for a payee exceeding both $20,000 and 200 transactions are required to be reported.

The Act also clarifies that both components of the de minimis exception - dollar amount and transaction count - are considered for backup withholding.

The threshold reversion provision is effective as if it had been included in the ARPA. The backup withholding clarification is effective for calendar years beginning after Dec. 31, 2024. (Act Sec. 70432. Amending Code Secs. 6050W and 3406)

Treatment of Capital Gains From Sale of Certain Farmland Property

The Act allows sellers of qualified farmland property to elect to pay capital gains tax resulting from the sale in four equal annual installments.

Qualified farmland property means real U.S. property used as a farm or leased to a qualified farmer. To qualify, the property must be used substantially for farming purposes for the 10 years preceding the sale. The property must also be subject to prohibitions on non-farm use for at least 10 years after the sale.

A qualified farmer is an individual actively engaged in farming, as defined in the Food Security Act of 1986.

The first installment payment is due with the tax return for the year in which the sale occurs. The following three payments are also due with the returns for the subsequent tax years. If a payment is missed, the entire remainder of the capital gains tax balance is then due immediately.

If the taxpayer is an individual who dies before paying all four installments, the unpaid installments are due with the last year's return. If the taxpayer is a C corporation, trust, or estate - and there is a liquidation, sale of substantially all assets, or cessation of business - then the unpaid installments are due immediately.

In the event of a tax deficiency assessed as a result of the gain from the farmland sale, the deficiency is prorated across the remaining installments. However, this does not apply if the deficiency is due to negligence or fraud.

This section applies to sales or exchanges in tax years beginning after the date of enactment. (Act Sec.

70437. Redesignates **Code Sec. 1062**)

Payments from Partnerships to Partners for Property or Services

Under pre-Act law, **Code Sec. 702(a)(2)** provided for the recharacterization under IRS regs of both disguised sales of property to partnerships and direct or indirect allocations and distributions to a partner who provides services or transfers property to a partnership, where the performance of the services (or the transfer of property) and the allocation and distribution, when viewed together, are properly characterized as a transaction between the partnership and the partner acting other than in his capacity as a partner. In those cases, the allocation and distribution are treated as a transaction between the partnership and an outsider. IRS has issued regs regarding disguised sales of property to partnerships, but has not issued any regs regarding allocations and distributions to partners who provide services or transfer property to partnerships.

The Act eliminates the language that the recharacterization be under IRS regs. Thus, IRS may recharacterize transactions without issuing any regs. (**Code Sec. 702(a)(2)** as amended by Act Sec. 70602(a)) The change is not intended to create any inference with respect to the proper treatment of payments from a partnership to a partner for services performed, or property transferred, on or before July 4, 2025. (Act Sec. 70602(c))

This provision is effective for services performed or property transferred after July 4, 2025. (Act Sec. 70602(b))

Section 162(m) Extended to Controlled Groups

Under pre-Act law, **Code Sec. 162(m)** limits the amounts that publicly held corporations may deduct for compensation of certain top executives to $1 million per year. The limitation applies to "covered employees," which typically includes the CEO, CFO, and the three highest-compensated executive officers (excluding the CEO and CFO). Pre-Act law also provides that for tax years beginning after Dec. 31, 2026, the definition of covered employees is currently set to expand to include the next five highest-compensated employees, regardless of their officer status. Thus, the number of covered employees for most publicly held companies will increase from 5 to 10.

Under pre-Act law, **Code Sec. 162(m)** applies to any "covered employee" within the Public Company's controlled group as defined under **Code Sec. 1504** for the consolidated return rules. Under the Act, which uses the term "specified covered employee" instead of "covered employee," determining compensation that is subject to **Code Sec. 162(m)** is expanded to include all members of a publicly-held corporation's controlled group and affiliated service group under **Code Sec. 414(b)** , (c), (m), or (o) (which is a broader group than under the pre-Act aggregation rule).

Compensation paid to a "specified covered employee" by any member of the controlled group is aggregated. To the extent the aggregated compensation exceeds $1 million, the deduction limitation is allocated pro rata to each controlled group member based on the ratio of compensation paid by that

member to aggregate compensation paid by all members.

Observation: The Act changes the **Code Sec. 162(m)** rules so that individuals employed by an unincorporated trade or business under common control with the publicly held corporation could be **specified covered** employees. This could include partnerships or affiliated service groups, such as certain service organizations connected through ownership or management. In addition, certain entities in controlled group structures (e.g., an Up-C or REIT) may have to analyze the potential application of **Code Sec. 162(m)** .

This provision applies to tax years beginning after December 31, 2025. (Act Sec. 70603(b))

Exceptions From Limitations on Deduction of Business Meals

Taxpayers may deduct food and beverage expenses associated with operating the taxpayer's trade or business, such as meals consumed by employees on work travel. However, with certain limited exceptions, the deduction is limited to 50% of the otherwise deductible amount through the end of 2025, and eliminated entirely for amounts paid or incurred after December 31, 2025. (**Code Sec. 274**)

The Act provides an additional exception from the limitations on the deduction of business meals for the expenses of food or beverages provided (a) on a fishing vessel, fish processing vessel, or fish tender vessel (as defined in 46 U.S. **Code Sec. 2101**), or (b) at a facility for the processing of fish for commercial use or consumption which *is* located in the United States north of 50 degrees north latitude and *is not* located in a metropolitan statistical area (within the meaning of Code Sec. 153(k)(2)(B)). (Code Sec. 274(n)(2)(C)(v), as added by Act Sec. 70305(b))

The Act also clarifies that the limitations on the deduction of business meals don't apply to expenses for goods or services (including the use of facilities) sold by a taxpayer in a bona fide transaction for an adequate and full consideration in money or money's worth. (**Code Sec. 274(o)** , as amended by Act Sec. 70305(a))

This section applies to amounts paid or incurred after December 31, 2025. (Act Sec. 70305(c))

Overall Dollar Limit on the Advanced Energy Project Credit No Longer Increased by Amounts Allocated to Revoked Project Certifications

Allocations of the **Code Sec. 48C** advanced energy project credit are subject to a cumulative (not annual) $10 billion limit. (**Code Sec. 48C(e)(2)**)

Under pre-Act law, when a project certification was revoked, the amount that had been allocated to that project was added back to the unused amount of the $10 billion limit. (**Code Sec. 48C(e)(3)(C)**)

The Act discontinues this add-back. (Act Sec. 70515(a))

This provision is effective as of the date of enactment of The Act. (Act Sec. 70515 (b))

Limit on Excess Business Losses is Made Permanent; Inflation Adjustment is Modified; Inapplicability of Farm Loss Limits is Made Permanent

For taxpayers other than corporations, any "excess business loss" of the taxpayer for the tax year is disallowed. Briefly, excess business loss is the excess of trade or business deductions for the tax year, over the sum of: gross income or gain for the tax year attributable to those trades or businesses, plus (a) $250,000 (as adjusted for inflation-i.e., for 2025, $313,000)-or (b) $500,000 for a joint return (as adjusted for inflation-i.e., for 2025, $626,000). (**Code Sec. 461(l)(1)** ; **Code Sec. 461(l)(3)**)

Under pre-Act law, the inflation adjustment to the $250,000 amount (above) was calculated by applying the cost-of-living adjustment determined under **Code Sec. 1(f)(3)** , determined by substituting "2017" for the "2016" in **Code Sec 1(f)(3)(A)(ii)** . (**Code Sec. 461(l)(3)(C)**)

For taxpayers other than corporations, the farm loss limitation rules of **Code Sec. 461(j)** do not apply. (**Code Sec. 461(l)(1)(A)**)

Observation: During the period when the farm loss limitation rules of **Code Sec. 461(j)** do not apply, farm losses are subject to the broader excess business loss limitation of **Code Sec. 461(l)** (above).

Under pre-Act law, the excess business loss provision was slated to expire for tax years beginning after 2028. (**Code Sec. 461(l)(1)(B)**) The inapplicability of the **Code Sec. 461(j)** excess farm loss limit was also slated to expire for tax years beginning after 2028.

The Act makes the limit on excess business losses permanent. It also makes permanent the inapplicability of the **Code Sec. 461(j)** excess farm loss limit. (Act Sec. 70601(a))

The Act changes the inflation adjustment calculation for the $250,000 amount (above); "2024" (and not "2017") is substituted for the "2016" in **Code Sec 1(f)(3)(A)(ii)** . (Act Sec. 70601(b))

The change making permanent the excess business loss limit/inapplicability of **Code Sec. 461(j)** is effective for tax years beginning after Dec. 31, 2026. (Act Sec. 70601(c)(1)) The change to the calculation of the inflation adjustment is effective for tax years beginning after December 31, 2025. (Act Sec. 70601(c)(2); **Code Sec. 461(l)(3)(C)**)

Enforcement Provisions with Respect to COVID-Related Employee Retention Credits

The Employee Retention Credit (ERC), also known as the Employee Retention Tax Credit (ERTC), was established through Sec. 2301(a) of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act; PL 116-136). The ERC was a refundable payroll tax credit. For the 2020 tax year, the ERC was claimed by eligible employers who paid qualified wages after March 12, 2020, and before January 1, 2021, if they experienced a full or partial suspension of their operations or a significant decline in gross receipts ("eligible employers"). The credit was equal to 50% of qualified wages paid, including qualified health plan expenses. The maximum credit per employee was $5,000.

The ERC was later extended to qualified wages paid after December 31, 2020, and before July 1, 2021, and the ERC rate was increased from 50% to 70% of qualified wages. The required percentage of significant decline in gross receipts was reduced for eligibility, and the limit per-employee on per-employee creditable wages was increased from $10,000 for the year to $10,000 for each quarter, among other items. It was further expanded and modified to include wages paid after June 30, 2021, and before January 1, 2022.

On November 15, 2021, the ERC was terminated for most employers beginning with the fourth quarter of 2021. However, recovery startup businesses continued to be eligible for the ERC through December 31, 2021.

Caution claiming the expired ERC. Generally, for 2020 tax periods, the deadline was April 15, 2024. For 2021 tax periods, the deadline was April 15, 2025. While a business may be eligible to claim the expired ERC via an amended payroll tax return, the IRS received numerous ERC claims from ineligible businesses, and has repeatedly warned about predatory ERC marketers aggressively advertising their services to "help" businesses claim the already expired ERC without verifying whether the business is in fact eligible for the ERC.

On September 14, 2023, the IRS paused the processing of new ERC claims due to the increase of improper claims submitted through the use of ERC mills. On August 8, 2024, the IRS announced it had processed ERC claims filed between September 14, 2023, and January 31, 2024.

The Act provides several provisions covering the enforcement by the IRS of fraudulent ERC claims.

First, it imposes penalties on any COVID-ERTC promoter who aids or advises on COVID-ERTC documents and who fails to meet due diligence requirements similar to those under **Code Sec. 6695(g)** when determining eligibility for, or the amount of, any credit or advance payment under **Code Sec. 3134** . The promoter will face a $1,000 penalty per failure. The penalty applies only to documents used in connection with tax returns or claims for refund, and will be treated as assessable under **Code Sec. 6695(g)** and assessed under Sec. 6201.

The Act defines a COVID-ERTC Promoter as any person that provides aid, assistance, or advice regarding COVID-ERTC documents and:

Their fee is based on the amount of the credit/refund, and COVID-ERTC work is more than 20% of their gross receipts in the year or prior year, or

COVID-ERTC work is more than 50% of gross receipts, or

Both COVID-ERTC work is more than 20% of gross receipts and the aggregate of gross receipts exceeds $500,000.

Certified professional employer organizations (CPEOs) are not considered a COVID-ERTC Promoter. All persons treated as a single employer under **Code Sec. 52** or section 414 are treated as a single

employer.

The Act goes on to define a COVID-ERTC document as any return, affidavit, claim, or document related to credit or advance payment of a credit under **Code Sec. 3134** , including any document related to eligibility for, or the calculation or determination of any amount directly related to, any such credit or advance payment.

The Act limits the availability of new ERTC credits or refunds after the enactment date unless the claim was filed before February 1, 2024. It further extends the limitation on the time period for the assessment of any amount related to ERTC credits, for 6 years from the latest of:

The date the original return which includes the calendar quarter with respect to which the credit is determined was filed,

The date the return is treated as filed, or

The date a claim for credit or refund is made.

The period to claim deductions for improperly claimed ERTC wages is also extended to match the assessment period.

Finally, the Act expands the penalty for erroneous claim for refund or credit to cover employment tax, not just income tax.

The provisions apply generally after the date of enactment of the Act. (Act Sec. 70605. Amends **Code Sec. 3134** and 6676)

Notax on Tips

History on taxation of tips. Historically, cash tips received by employees have been considered taxable income under the Internal Revenue Code. Employees are required to report tips to their employers, who then withhold income and payroll taxes. Employers also pay their share of FICA taxes on reported tips.

There has never been a general deduction for tip income; all tips were fully taxable, and the only related tax benefit was the FICA tip credit for employers in the food and beverage industry under IRC?45B. The Tax Cuts and Jobs Act (TCJA) of 2017 did not alter the taxability of tips for employees.

Creation of temporary deduction for tips. Section 70201 of the Act creates a new, temporary deduction for individuals who receive qualified cash tips in occupations where tipping was customary before January 1, 2025. This is codified as new IRC?225.

Deduction amount and phaseout. The deduction is up to $25,000 per year per taxpayer. The deduction phases out by $100 for every $1,000 of modified adjusted gross income (MAGI) above $150,000 (or $300,000 for joint filers).

Qualifying criteria for tips. Tips must be properly reported on IRS-approved forms. Tips must be

voluntary, not negotiated, and not received in specified service trades or businesses (as defined in IRC?199A(d)(2)). For individuals receiving tips through a business they operate (other than as employees), the deduction is allowed only if gross income from the business (including tips) exceeds business-related deductions.

Additional requirements. Married taxpayers must file jointly to claim the deduction. A valid Social Security Number (SSN) must be provided. An omission of a valid SSN is treated as a mathematical or clerical error under IRC?6213(g)(2).

Non-itemizer eligibility. The deduction is available to non-itemizers, meaning it can be claimed in addition to the standard deduction (IRC?63).

Exclusion from qualified business income. Any amount deducted under new IRC?225 is excluded from the definition of qualified business income for purposes of the IRC?199A deduction, preventing double tax benefits.

Expansion of FICA tip credit. The FICA tip credit under IRC?45B is expanded to include beauty service businesses (barbering, hair care, nail care, esthetics, spa treatments) where tipping is customary, aligning them with food and beverage establishments.

Enhanced reporting requirements. Businesses, third-party payers, and platforms must separately report designated cash tips and the recipient's occupation on Forms W-2, 1099, and 1099-K (IRC §6041, §6041A, §6050W, §6051, etc.). Employers must report total employee tips and occupations on wage statements.

IRS guidance and withholding adjustments. The IRS is required to publish a list of occupations that customarily receive tips not later than 90 days after the date of the enactment of this Act. The list must cover occupations that customarily and regularly received tips on or before December 31, 2024. IRS must adjust withholding procedures to reflect the new deduction starting in 2026 (IRC §3402). For tips received before January 1, 2026, reporting entities may use reasonable methods to approximate designated tip amounts during the transition period.

Effective date. The new tip deduction and related provisions apply to taxable years beginning after December 31, 2024. The deduction is temporary and will expire for taxable years beginning after December 31, 2028 (Act Section 70201, adding new IRC §225).

Extension and Enhancement of Paid Family and Medical Leave Credit

Code Sec. 45S provides a general business credit equal to the applicable percentage (12.5% to 25% depending on the rate of payment) of the amount of wages paid to qualifying employees during any period in which the employees are on family and medical leave, up to a maximum of 12 weeks of leave for any employee for the tax year. An employer can't deduct wages for which **a credit** is taken. A qualifying employee must have been employed by the employer for one year or more. Any leave paid by a state or local government or required by state or local law is not taken into account in determining the

amount of paid family and medical leave provided by the employer. Under pre-Act law, the credit won't be available for wages paid in tax years beginning after 2025.

The Act makes the credit permanent. (Act Sec. 70304(a)(5), repealing **Code Sec. 45S(i)**)

The Act allows an employer to instead choose a credit for the applicable percentage of premiums paid or incurred by an employer for an insurance policy that provides paid family and medical leave (in other words, an employer must choose between a credit based on premiums paid or wages paid). (Act Sec. 70304(a)(1)(A), amending Code Sec. 45S(a)(1)(B)) The credit for insurance premiums is available whether or not leave is **actually taken** . (Act Sec. 70304(a)(1)(B), adding Code Sec. 45S(a)(3))

The Act clarifies that an eligible employee for purposes of the credit includes any employee employed not less than 20 hours per week. (Act Sec. 70304(a)(4)(C), adding Code Sec. 45S(d)(3)) At the election of the employer, an eligible employee can be one who has been employed by the employer for not less than six months, rather than one year. (Act Sec. 70304(a)(4)(A), amending **Code Sec. 45S(d)(1)**)

The Act clarifies that employer-provided paid leave required by state or local government counts toward paid leave provided by the employer for purposes of determining eligibility for the credit, although it is not **taken into account** in determining the amount of credit. (Act Sec. 70304(a)(3), amending **Code Sec. 45S(c)(4)**)

The Act amends the aggregation rule to provide that all persons treated as a single employer under **Code Sec. 414(a)** or **Code Sec. 414(b)** are generally treated as a single employer for purposes of the family and medical leave credit. (Act Sec. 70304(a)(3), amending **Code Sec. 45S(c)(3)**)

This provision applies to tax years beginning after December 31, 2025. (Act Sec. 70304(c))

No Taxon Overtime

History of overtime taxation. Historically, overtime pay-defined as compensation for hours worked beyond 40 in a workweek, as required by the Fair Labor Standards Act (FLSA)-has always been fully taxable under the Internal Revenue Code. Employees pay regular income and payroll taxes on all wages, including overtime.

There has never been a special deduction or exclusion for overtime pay for individual taxpayers. Employers are required to report all compensation, including overtime, on IRS Form W-2, and employees must include all such compensation in their gross income. The Tax Cuts and Jobs Act (TCJA) of 2017 did not alter the taxability of tips for employees.

Creation of a temporary deduction for overtime pay. Section 7202 of the Act creates a new, temporary deduction for individuals who receive "qualified overtime compensation." This is codified as new Internal Revenue Code (IRC) §226.

Deduction amount and phaseout. Taxpayers may deduct up to $12,500 per year in qualified overtime compensation ($25,000 for joint filers). The deduction phases out by $100 for every $1,000 of modified

adjusted gross income (MAGI) above $150,000 (single filers) or $300,000 (joint filers).

Definition and qualifying criteria for overtime. "Qualified overtime compensation" is defined as overtime pay required under section 7 of the FLSA that is in excess of the regular rate. The deduction does not apply to any amounts already deducted as qualified tips under new IRC §224.

Overtime must be properly reported on IRS forms such as W-2s (for employees) or 1099s (for non-employees). The deduction is only available for overtime compensation, not for regular wages or other forms of compensation.

Additional requirements. To claim the deduction, taxpayers must include a valid Social Security Number (SSN) on their return. Married individuals must file jointly to be eligible for the deduction. The omission of a required SSN is treated as a mathematical or clerical error under IRC §6213(g)(2), allowing the IRS to correct the return without a formal audit. The IRS is authorized to issue regulations to prevent abuse or misclassification of income.

Non-itemizer eligibility. The deduction is available to non-itemizers, meaning it can be claimed in addition to the standard deduction (IRC §63).

Reporting requirements. Employers must report the total amount of qualified overtime compensation on employees' W-2 forms. Businesses must also report this information for non-employees on applicable 1099 forms. For overtime compensation earned before January 1, 2026, reporting entities may use reasonable methods to estimate and report qualifying amounts during the transition period.

Withholding and IRS guidance. The IRS must update withholding procedures beginning in 2026 to reflect the new deduction (IRC §3402). The IRS is authorized to issue regulations or guidance to prevent abuse of the deduction.

Effective date. The new overtime deduction and related provisions apply to taxable years beginning after December 31, 2024. The deduction is temporary and will expire for taxable years beginning after December 31, 2028 (Act Section 70202, adding new IRC §226).

Enhancement of Employer-Provided Child Care Credit

Under pre-Act law, **Code Sec. 45F** allowed employers to claim the employer-provided child care credit for certain costs of providing child care assistance to employees. Subject to a $150,000-per-tax-year limit, the credit was available for (1) 25 percent of "qualified child care expenditures" and (2) 10 percent of the costs of certain other types of child care assistance.

Effective 2026, the Act enhances the employer-provided child-care credit by increasing the credit percentage for "qualified child care expenditures" from 25 percent to 40 percent for regular businesses and 50 percent for eligible small businesses. (Act Sec. 70401(a)) The maximum annual credit amounts increase to $500,000 for regular businesses and $600,000 for eligible small businesses, with both amounts subject to annual inflation adjustments beginning in 2027. (Act Sec. 70401(b))

The provision defines eligible small businesses as those meeting a modified gross receipts test based on a 5-year period rather than the standard 3-year period (Act Sec. 70401(c)) and expands credit eligibility to include third-party intermediary arrangements (Act Sec. 70401(d)) and jointly owned or operated child care facilities (Act Sec. 70401(e)).

This provision is effective for amounts paid or incurred after Dec. 31, 2025. (Act Sec. 70401(g))

Employee Exclusion for Employer Payments of Student Loans is Made Permanent; Inflation Adjustment Added

"Educational assistance" provided under an employer's qualified educational assistance program, up to an annual maximum of $5,250, is excluded from the employee's income. (**Code Sec. 127(a)**)

Under pre-Act law, "educational assistance" includes "eligible student loan repayments" made after Mar. 27, 2020. These are payments by the employer, whether paid to the employee or to a lender, of principal or interest on any qualified higher education loan as defined in **Code Sec. 221(d)(1)** for the education of the employee (but not of a spouse or dependent). (**Code Sec. 127(c)(1)(B))**

Under pre-Act law, the employee exclusion for eligible student loan repayments made by an employer was slated to expire for payments made after Dec. 31, 2025. (**Code Sec. 127(c)(1)(B)**)

Pre-Act law did not provide for an inflation adjustment to the above $5,250-per-year limit. (**Code Sec. 127**)

The Act makes permanent the employee exclusion for qualifying employer payments of student loans under **Code Sec. 127(c)(1)(B)** . (Act Sec. 70412(a)) And the Act provides for an inflation adjustment to the $5,250 amount, for tax years beginning after 2026. (Act Sec. 70412(b))

Both provisions apply for payments made after Dec. 31, 2025. (Act Sec. 70412(c))

DependentCare Assistance Program's Tax-free Contribution Limit Increased

Under pre-Act law, the maximum annual exclusion for dependent care assistance is $5,000 ($2,500 for a married individual filing separately). **Code Sec. 129** provides that gross income of an employee does not include amounts paid or incurred by an employer for dependent care assistance provided to an employee if the amounts are furnished under a dependent care assistance program.

This section increases the exclusion for dependent care assistance up to $7,500 annually ($3,750 for a married individual filing separately).

This section is effective for tax years beginning after December 31, 2025. (Act Sec. 70404. Amends **Code Sec. 129**)

Exclusionfor Qualified Bicycle Commuting Reimbursement Permanently Eliminated

Under pre-Act law, the $20 per month qualified bicycle commuting reimbursement exclusion received by an employee from an employer (which is suspended for tax years 2018 through 2025) is scheduled to return for tax years beginning after December 31, 2025.

This section permanently eliminates the qualified bicycle commuting reimbursement exclusion. For qualified transportation fringe benefits other than the qualified bicycle commuting reimbursement, the provision changes the base year (from 1998 to 1997) for purposes of calculating the inflation adjustment.

This section is effective for tax years beginning after December 31, 2025. (Act Sec. 70112. Amends **Code Sec. 132(f)**)

Termination of Cost Recovery for Energy Property

Under pre-Act law, **Code Sec. 168(e)(3)(B)(vi)** classifies certain energy property as 5-year property eligible for accelerated depreciation under the Modified Accelerated Cost Recovery System (MACRS). Energy property, as defined in **Code Sec. 48(a)(3)(A)** , includes solar panels, wind turbines, geothermal systems, fuel cells, microturbines, combined heat and power systems, and certain energy storage and hydrogen technologies. To qualify, the property must (a) be constructed or first used by the taxpayer, (b) be eligible for depreciation or amortization, and (c) meet IRS and Department of Energy standards.

Effective 2025, the Act removes this 5-year classification, thereby eliminating accelerated cost recovery under MACRS for newly constructed energy property. (Act Sec. 70509(a). Amends **Code Sec. 168(e)(3)(B)(vi)**)

Observation. Eliminating 5-year MACRS classification for energy property reduces the upfront tax benefits of clean energy investments.

This provision applies to property for which construction begins after December 31, 2024.(Act Sec. 70509(b))

Termination for Wind Energy After 2027 and Other Changes to the Advanced Manufacturing Production Credit

The **Code Sec. 45X** advanced manufacturing production credit applies to the production and sale of eligible components in a trade or business where the sale is to an unrelated person. (**Code Sec. 45X(a)**)

Three of the five categories of eligible components are wind energy components, applicable critical minerals, and qualifying battery components. **(Code Sec. 45X(c)(1)(A))** The last category includes the subcategory battery modules. **(Code Sec. 45X(c)(5)(A)(iii),** (**Code Sec. 45X(c)(5)(B)(iii)**)

Credit rates can vary among the categories and subcategories of eligible components. **(Code Sec. 45X(b)(1)).**

Under pre-Act law sales to unrelated people included sales of components integrated, incorporated, or

assembled into another eligible component sold to an unrelated person (the subcomponent rule). (**Code Sec. 45X(d)(4)**)

Under pre-Act law, the credit, generally, was phased out for eligible components as follows: 75% of the otherwise-allowable credit for eligible components sold in calendar year 2030, 50% for sales in calendar year 2031, 25% for sales in 2032, and 0% for sales in 2033 and thereafter. But the phaseout didn't apply to applicable critical minerals. **(Code Sec. 45X(b)(3))**

The Act narrows the subcomponent rule by requiring that the component that includes the subcomponent be produced within the same manufacturing facility as the subcomponent. The Act also provides that the rule applies to a component only if at least 65% of the direct material costs paid or incurred by the taxpayer to produce the including component are attributable to subcomponents mined, produced, or manufactured in the U.S. (Act Sec. 70514 (a))

The Act terminates the credit for wind energy components produced and sold after December 31, 2027. (Act Sec. 70514 (b)(3))

The Act adds metallurgical coal (suitable for production of steel without regard to where the steel is produced) to the applicable critical mineral category of eligible components at a credit rate of 2.5% of production costs (Act Sec. 70514 (e)), but only for the metallurgical coal produced before January 1, 2030. **(Act Sec. 70514 (b)(3)**)

The Act newly subjects pre-Act applicable critical minerals to phaseout on the following schedule: 75% of the otherwise-allowable credit for applicable critical minerals produced in calendar year 2031, 50% for production in calendar year 2032, 25% for production in 2033, and 0% for production in 2034 and thereafter. (Act Sec. 70514 (b)(3))

The Act adds to the requirements for being a battery module that, in addition to any other required equipment, the module be comprised of all other essential equipment needed for battery functionality, such as current collector assemblies and voltage sense harnesses, or any other essential energy collection equipment. **(Act Sec. 70514 (d))**

The Act provides that eligible components don't include any property that includes "material assistance from a prohibited foreign entity," as that term is defined in Code Sec. 7701(a)(52), as added to the Code by Act Sec. 70512(c), except that the treatment described in Code Sec. 7701(a)(52)(D)(iv) of existing contracts is modified as applied to the credit. (Act Sec. 70514 (c)(1))

Additionally, The Act prohibits the credit if the taxpayer is a specified foreign entity as defined in Code Sec. 7701(a)(51)(B) or a foreign influenced entity as defined (with modification) in Code Sec. 7701(a)(51)(D), both as added to the Code by Act Sec. 70512(c). The credit is also prohibited for a tax year to which Code Sec. 7701(a)(51)(D)(i)(II), concerning giving effective control of certain activities to a specified foreign entity, is determined to apply if the determination relates to an eligible component. (Act Sec. 70514 (c)(2))

The above provisions apply to tax years beginning after the date of enactment of The Act except that the rules for subcomponents apply to components sold during tax years beginning after December 31, 2026. (Act Sec. 70514 (f))

Sunsetting Energy Efficient Home Improvement Credit by December 31, 2025

Under pre-Act law, taxpayers were eligible for a credit equal to 30% of expenditures on energy efficient home improvements. (**Code Sec. 25C(a)**) Energy efficient home improvement expenditures include qualified energy efficiency improvements, residential energy property expenditures, and home energy audits. (**Code Sec. 25C(a)**) The credit was limited to $1,200. (**Code Sec. 25C(b)(1)**) The credit was only available for property placed in service through December 31, 2032. (**Code Sec. 25C(i)(2)**)

The Act amends **Code Sec. 25C(h)** to terminate the energy efficient home improvement property credit for any property placed in service after December 31, 2025. (Act Sec. 70505(a))

Sunsetting Residential Clean Energy Credits by December 31, 2025

Under pre-Act law, taxpayers were eligible for a credit for residential clean energy credit for expenditures. (**Code Sec. 25D(a)**) Residential clean energy expenditures included expenditures for qualified solar electric property, qualified solar water heating property, qualified fuel cell property, qualified small wind energy property, qualified geothermal heat pump property, and qualified battery storage technology. (**Code Sec. 25D(a)**) For property placed in service after December 31, 2021 and before January 1, 2033, the credit was for 30 percent of the expenditures. (**Code Sec. 25D(g)(3)**).

The Act amends **Code Sec. 25D(h)** to terminate the residential clean energy expenditures credit for any expenditures after December 31, 2025. (Act Sec. 70506(a))

Sunsetting Energy Efficient Commercial Buildings Deduction for Construction Beginning after June 30, 2026

Under pre-Act law, taxpayers were eligible for a deduction for an amount equal to the cost of energy efficient commercial building property placed in service during the tax year. (**Code Sec. 179D(a)**) There were limitations based upon square footage and previous deductions claimed as well as the amount of reduction of energy and power costs. (**Code Sec. 179D(b)**) Under pre-Act law the deduction was not scheduled for sunsetting.

The Act adds Code Sec. 179D(i) to terminate the energy efficient commercial building deduction for the cost of energy efficient commercial building property the construction of which begins after June 30, 2026. (Act Sec. 70507)

Termination of the Previously-Owned Clean Vehicles Credit

Code Sec. 25E provides a credit for a "qualified buyer" of a used clean vehicle. The credit amount is the lesser of $4,000 or 30% of the vehicle sale price.

The credit is subject to an income cap and a number of other limits and requirements, including that the vehicle model year be at least two years earlier than the calendar year in which the taxpayer acquires the vehicle, the sale price must not exceed $25,000, the seller must be a dealer, a "first transfer" rule must be met, and the taxpayer must purchase the vehicle for use, not resale.

Under pre-Act law, the credit was set to terminate for vehicles acquired after 2032.

The Act significantly changes this and accelerates the termination date to vehicles acquired after 9/30/2025.

This provision is effective as of the date of enactment of The Act. (Act Sec. 70501 amends **Code Sec. 25E(g)**).

Termination of Clean Vehicle Credit

Code Sec. 30D , as modified by the Inflation Reduction Act of 2022, provides a credit for each new clean vehicle a taxpayer places in service in a tax year. The credit is subject to a host of requirements and limits, including the critical mineral and battery component requirements for vehicles placed in service after 4/17/2023.

The critical mineral and battery component requirements are aimed at incentivizing domestic manufacturing and the use of supply chains in the U.S., or with countries with which the U.S. has trusted trade agreements. To that end, an "applicable percentage" of the value of the critical minerals of the vehicle's battery must be extracted or processed in the U.S. or in any country with which the U.S. has a free trade agreement, or recycled in North America. And an applicable percentage of the battery's components must be manufactured or assembled in North America.

Under pre-Act law, the applicable percentages were set at annually increasing percentages, and the credit was to terminate for vehicles *placed in service* after 2032.

The Act significantly accelerates and changes the parameter for termination, such that the credit now terminates for vehicles *acquired* after 9/30/2025. And the critical mineral and battery component applicable percentage clauses for vehicles placed in service after calendar year 2026 (pre-Act **Code Sec. 30D(e)(1)(B)(v)** and **Code Sec. 30D(e)(2)(B)(iv)** -(vi) are stricken).

Observation: As indicated above, when a vehicle is placed in service affects the **Code Sec. 30D** credit. And placed in service generally means the date the taxpayer takes delivery of the vehicle. So, although the credit terminates for vehicles acquired after 9/30/2025, if a taxpayer acquires a vehicle before that date but doesn't take delivery until 2026, the credit may be available, albeit subject to the rules for vehicles placed in service in 2026.

This provision is effective as of the date of enactment of The Act. (Act Sec. 70502 amends **Code Sec. 30D(h)** , 30D(e)).

Termination of Qualified Commercial Clean Vehicles Credit

Code Sec. 45W provides a credit for taxpayers purchasing qualified commercial clean vehicles for use or sale (not resale).

The credit, which is part of the **Code Sec. 38** general business credit, is calculated as the lesser of 15% of the basis of the vehicle (30% for a vehicle not powered by a gasoline or diesel internal combustion engine), or the vehicle's "incremental cost." The maximum allowable credit is $7,500 for a qualified commercial clean vehicle with a gross vehicle weight rating (GVWR) of less than 14,000 pounds, or $40,000 for such a vehicle with a higher GVWR.

Under pre-Act law, the credit was available for vehicles acquired after 2022 and before 2033.

The Act significantly changes this and terminates the credit for any vehicle acquired after 9/30/2025.

This provision is effective as of the date of enactment of The Act. (Act Sec. 70503 amends **Code Sec. 45W(g)**).

Termination of Alternative Fuel Vehicle Refueling Property Credit.

Code Sec. 30C provides an "alternative fuel vehicle refueling property" credit for taxpayers that install qualified refueling or recharging property (such as an electric vehicle (EV) charger) in an eligible location. The credit, as modified and extended by the Inflation Reduction Act (IRA) of 2022, could cover the cost of the property itself, along with installation costs, for qualified property located in low income and rural areas (subject to a number of conditions and requirements).

Under pre-Act law, the credit was to terminate for property placed in service after 2032.

The Act significantly accelerates this and terminates the credit for property placed in service after 6/30/2026.

This provision is effective as of the date of enactment of The Act. (Act Sec. 70504 amends **Code Sec. 30C(i)**).

Termination of New Energy Efficient Home Credit

Under pre-Act law, the **Code Sec. 45L** tax credit for constructing qualified energy-efficient homes was set to expire for homes acquired after December 31, 2032. The credit is $2,500 for ENERGY STAR certified single-family or manufactured homes, and $5,000 for homes meeting the Zero Energy Ready Home standard. For multifamily units, the credit is $500 per unit for ENERGY STAR certification or $1,000 per unit for Zero Energy Ready Home certification. If prevailing wage requirements are met, these amounts increase to $2,500 and $5,000 per unit, respectively.

The Act accelerates the credit's expiration date from its original sunset date (December 31, 2032) to June 30, 2026. As a result, builders and developers will no longer be eligible to claim the credit for

homes acquired after that date.

This provision is effective for homes acquired after June 30, 2026. (Act Sec. 70508 amends **Code Sec. 45L(h)**)

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