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# Preparing clients for new provisions next tax season

By Alistair M. Nevius, J.D.

**C**oming into 2025, a big question on many tax practitioners' minds was how to prepare their clients for the possible expiration of the lower tax rates that had been in place since 2017. For budget scoring purposes, the Tax Cuts and Jobs Act (TCJA), P.L. 115-97, had set its lowered tax rates for individuals to sunset after 2025, and, without legislative action, the old, higher tax brackets would come back into force. However, in July, Congress solved this dilemma when it passed H.R. 1, P.L. 119-21, commonly known as the One Big Beautiful Bill Act, which made the TCJA's rates permanent.

But in addition to that extension of the TCJA's tax rates, the act enacted a host of other tax changes, many effective in 2025, that practitioners will have to prepare their clients for. Here are new and changed provisions that individuals and small businesses should be aware of.

## PROVISIONS FOR INDIVIDUALS

### Alternative minimum tax

The act permanently extended the TCJA's higher alternative minimum tax (AMT) exemption amounts and exemption phaseout thresholds, indexed for inflation. For 2025, the exemption amount for single taxpayers is \$88,100 (\$68,500 for married individuals filing separately), and it begins to phase out at taxable income of \$626,350. For married taxpayers filing jointly,

the exemption amount is \$137,000 and begins to phase out at \$1,252,700.

### Standard and itemized deductions

The act made the TCJA's increased standard deduction permanent. For 2025, it is set at \$15,750 for single filers, \$31,500 for married individuals filing jointly, and \$23,625 for heads of household. Along with the increased standard deduction, the act made permanent the TCJA's suspension of miscellaneous itemized deductions (although it removed eligible educators' unreimbursed employee expenses from the miscellaneous itemized deductions list).

The act also created a new limit beginning in 2026 on the amount of benefit high-income taxpayers can get from their itemized deductions. The act limits the amount of itemized deductions available to taxpayers in the 37% tax rate bracket. Their itemized deductions (determined before the limitation on itemized deductions) will be reduced by 2/37 of the lesser of the amount of the taxpayer's itemized deductions or the amount of the taxpayer's taxable income (before the limitation on itemized deductions and increased by the amount of itemized deductions) that exceeds the start of the 37% tax rate bracket.

The act also made permanent the TCJA's removal of the deduction for personal exemptions (setting it at zero).

### Senior deduction

Under the act, individuals who are age 65 and older may claim a deduction of \$6,000 in 2025 through 2028. The \$6,000 amount is per person — so married couples can claim a \$12,000 deduction if they both qualify. However, the deduction phases out for taxpayers with modified

adjusted gross income (MAGI) over \$75,000 (\$150,000 for joint filers). To qualify, a taxpayer must turn 65 on or before the last day of the tax year. This new deduction is in addition to the current additional standard deduction for seniors of \$1,600, or \$2,000 if the individual is unmarried and not a surviving spouse.

Because the extra senior deduction was created as a substitute for a “no tax on Social Security” promise that could not be adopted under the budget reconciliation rules that governed the passage of the act, clients may think they have to be receiving Social Security benefits to take the deduction, but they do not. Individuals age 65 and older can claim the deduction even if they haven’t started taking Social Security. On the other hand, individuals between the ages of 62 and 64 are not eligible for the deduction, even if they have started receiving Social Security benefits.

### **SALT cap**

For 2025, the limit on the federal deduction for state and local taxes (the SALT cap) increases to \$40,000 (\$20,000 for married taxpayers filing separately) from the previous \$10,000. The amount of the deduction available to a taxpayer is reduced by 30% of the amount the taxpayer’s MAGI exceeds \$500,000 (\$250,000 for married taxpayers filing separately), but the phaseout stops when the deduction reaches \$10,000 (\$5,000 for married taxpayers filing separately). The act did not limit the various workarounds that states have enacted and taxpayers are currently using to avoid the SALT cap.

### **Car loan interest**

The act allows individuals to deduct up to \$10,000 in interest paid on a loan used to purchase a qualified vehicle, but various restrictions embedded in the provision may prove a trap for the unwary client (including a phaseout beginning at \$100,000 of MAGI (\$200,000 for married taxpayers filing jointly)).

To qualify for the deduction, the interest must be paid on a loan that is originated after Dec. 31, 2024; used to purchase a vehicle, the original use of which starts with the taxpayer (used vehicles do not qualify); for a personal-use vehicle (not for business or commercial use); and secured by a first lien on the vehicle.

A qualified vehicle is a car, minivan, van,

SUV, pickup truck, or motorcycle with a gross vehicle weight rating of less than 14,000 pounds that has undergone final assembly in the United States, among other requirements.

Finally, for many eligible clients, the interest deduction will not outlast the car loan; the provision is set to expire after 2028.

### **Mortgage interest**

The TCJA’s provision limiting the qualified residence interest deduction to the first \$750,000 in home mortgage acquisition debt was made permanent by the act. It also made permanent the exclusion of interest on home-equity indebtedness from the definition of qualified residence interest. The act also reinstates the provision (which had expired after Dec. 31, 2021) allowing certain mortgage insurance premiums on acquisition indebtedness to count as qualified residence interest.

### **Casualty losses**

The TCJA’s provision limiting the itemized deduction for personal casualty losses to losses resulting from federally declared disasters is now permanent. The act also expanded the provision to include certain state-declared disasters, but that change is not effective until next year.

### **Excess business losses**

The act makes the Sec. 461(l)(1) limitation on excess business losses of noncorporate taxpayers permanent.

### **Moving expenses**

The act makes permanent the TCJA’s elimination of the moving expense deduction, except for active-duty members of the U.S. armed forces. A new provision added by the act allowing a moving expense deduction for certain members of the intelligence community takes effect in 2026.

### **“No tax on tips”**

The act labels one of its new, temporary (effective 2025 through 2028) deductions “no tax on tips,” and this is how it has been portrayed in the media, so many clients may be surprised to discover that they will still owe tax on tips. Some may have already been surprised to find taxes were still being

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### **About the author**

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withheld on their tip income after the act was enacted. The first thing to recognize is that the deduction applies only to federal income tax; taxpayers will still owe Social Security and Medicare taxes on their tip income. The second is that states have so far not followed the federal government's lead, so state income tax will still be owed on tip income (in states with an income tax).

And not all taxpayers will be eligible for the deduction, either because they work in an occupation that does not customarily and regularly receive tips or because their tip income was not reported to them on the appropriate form (Form W-2, *Wage and Tax Statement*; various versions of Form 1099; or Form 4137, *Social Security and Medicare Tax on Unreported Tip Income*). The IRS [has promised](#) to release by Oct. 2 a list of occupations that customarily and regularly receive tips and therefore make the recipient eligible for the deduction. The IRS has also promised transition relief for tax year 2025 for individuals claiming the deduction and for employers subject to new reporting requirements.

Taxpayers conducting or employed by a trade or business that is a specified service trade or business (SSTB) under Sec. 199A(d)(2) are ineligible for the “no tax on tips” deduction. SSTBs include any trade or business involving the performance of services in the fields of health; law;

accounting; actuarial science; performing arts; consulting; athletics; financial services; brokerage services; investing and investment management; trading or dealing in securities, partnership interests, or commodities; or any trade or business where the principal asset of the trade or business is the reputation or skill of one or more of its employees or owners.

In addition, some taxpayers may find the deduction reduced because their MAGI is too high (the deduction phases out for taxpayers with MAGI over \$150,000 (\$300,000 in the case of a joint return)). And the maximum deduction is \$25,000, so taxpayers with tip income over that amount will end up paying income tax on the overage (or over the phased-down amount, if their MAGI exceeds the threshold). For self-employed taxpayers, the deduction cannot exceed the individual's net income (without regard to the “no tax on tips” deduction) from the trade or business in which the tips were earned. And married taxpayers must file jointly in order to claim the deduction.

#### **“No tax on overtime”**

Another deduction that may catch some clients unaware is the new, temporary (effective 2025 through 2028) deduction called “no tax on overtime.” This deduction holds many of the same potential surprises as the “no tax on tips” deduction. First, it applies only to federal income tax, not Federal Insurance Contributions Act (FICA) taxes and not state taxes. Also, if the taxpayer's overtime is not reported as qualified overtime compensation on the appropriate form (Form W-2, Form 1099, or other specified statement furnished to the individual), it is not eligible for the deduction. Only the portion of overtime pay that exceeds the taxpayer's regular rate of pay (e.g., the “half” portion of time-and-a-half pay) is potentially deductible, up to a maximum deduction of \$12,500 (\$25,000 in the case of a joint return), so taxpayers earning more than that in overtime pay will have to pay income tax on the overage. And, finally, the deduction phases out by \$100 for every \$1,000 the taxpayer's MAGI exceeds \$150,000 (\$300,000 in the case of a joint return). This means it will phase out for single

taxpayers at \$275,000 of MAGI and for joint filers at \$550,000 of MAGI.

As with the “no tax on tips” deduction, married individuals must file jointly to claim the deduction.

The IRS has promised transition relief for tax year 2025 for individuals claiming the deduction and for employers subject to new reporting requirements.

### **Child tax credit**

The nonrefundable child tax credit was permanently increased to \$2,200 per child. The additional child tax credit (the refundable child tax credit) of \$1,400, adjusted for inflation, was also made permanent. The additional child tax credit after adjustment for inflation is \$1,700 for 2025. The credit starts to phase out at MAGI of \$200,000 (\$400,000 in the case of a joint return). There is also a \$500 nonrefundable credit available for each dependent of the taxpayer other than a qualifying child. As formerly, Social Security numbers must be shown on the return for each child for whom the credit is being claimed.

New for 2025, however, is a requirement that the taxpayer claiming the credit (or in the case of a joint return, at least one of the spouses) also must have a Social Security number, which must be included on the taxpayer’s return.

### **Adoption credit**

Starting in 2025, a portion of the adoption credit is refundable — up to \$5,000.

### **Clean energy credits**

Certain energy credits are being eliminated during 2025. The clean vehicle credit, the previously owned clean vehicle credit, and the qualified commercial clean vehicle credit all were terminated at the end of September. Clients who bought qualifying vehicles before Oct. 1 may qualify for a credit; those who bought on or after that date will not.

### **Sec. 529 plans**

For distributions made after July 4, 2025, the act allows tax-exempt distributions from Sec. 529 savings plans to be used for additional qualified higher education expenses, including “qualified postsecondary

Under the act, individuals who are age 65 and older may claim a deduction of \$6,000 in 2025 through 2028.

credentialing expenses” in connection with “recognized postsecondary credential programs” and “recognized postsecondary credentials.” Another change to Sec. 529 plans that clients may have heard about — allowing distributions to be used for certain educational expenses in connection with enrollment or attendance at an elementary or secondary school — also applies to distributions made after July 4, 2025.

## **SMALL BUSINESS PROVISIONS**

### **Bonus depreciation**

The allowance is increased to 100% for property acquired and placed in service on or after Jan. 19, 2025, as well as for specified plants planted or grafted on or after Jan. 19, 2025. Property placed in service in the first 18 days of 2025 is subject to the former, reduced rate of 40% in effect before the enactment of the act.

### **Sec. 179**

For property placed in service in 2025, the maximum amount a taxpayer may expense under Sec. 179 is \$2.5 million, reduced by the amount by which the cost of the qualifying property exceeds \$4 million. The \$2.5 million and \$4 million amounts are adjusted for inflation for tax years beginning after 2025.

### **R&D**

The act allows taxpayers to immediately deduct domestic research or experimental expenditures paid or incurred in tax years beginning after Dec. 31, 2024. However, research or experimental expenditures attributable to research that is conducted outside the United States will continue to be required to be capitalized and amortized over 15 years under Sec. 174. ▶



Small business taxpayers with average annual gross receipts of \$31 million or less (other than a tax shelter) can retroactively apply this change to tax years beginning after Dec. 31, 2021. In addition, all taxpayers that made domestic research or experimental expenditures in tax years beginning after Dec. 31, 2021, and before Jan. 1, 2025, can elect to accelerate the remaining unamortized deductions for those expenditures over a one- or two-year period.

### Sec. 163(j)

The act changed the definition of adjusted taxable income (ATI) under Sec. 163(j) for tax years beginning after Dec. 31, 2024, permanently excluding depreciation, depletion, and amortization from the computation of ATI. The act also amended the definition of “motor vehicle” to allow interest on floor plan financing for certain trailers and campers to be deductible.

### Small business stock

The act modified the Sec. 1202 exclusion for gain from qualified small business stock (QSBS) by providing a tiered gain exclusion for QSBS acquired after July 4, 2025. For QSBS acquired after that date and held for three years, 50% of the gain will be excluded from gross income. If the QSBS is held for four years, the exclusion rises to 75%. If the QSBS is held for five years or more, 100% of the gain will be excluded from income.

### Farmland sales

The act created a new Sec. 1062 that allows income tax resulting from the sale of qualified farmland property to a qualified farmer to be paid in four installments. The new section applies to sales or exchanges in tax years beginning after July 4, 2025. (So, for calendar-year taxpayers, it will not apply until 2026.)

## REPORTING REQUIREMENTS

### Form 1099-K

The act provides that with respect to reporting on Form 1099-K, *Payment Card and Third Party Network Transactions*, a third-party settlement organization is not required to report unless the aggregate

value of third-party network transactions with respect to a participating payee for the year exceeds \$20,000 and the aggregate number of such transactions with respect to a participating payee exceeds 200. A lower reporting threshold of \$600 (with no minimum transaction number) had been enacted as part of the American Rescue Plan Act of 2021, P.L. 117-2, but the IRS had issued guidance that phased in the implementation of that threshold over a multiple-year period, and under that guidance, the reporting threshold had been scheduled to be \$2,500 in 2025 and \$600 in 2026.

### Form 1099

The act increased the information-reporting threshold for certain payments to persons engaged in a trade or business and payments of remuneration for services to \$2,000 in a calendar year (from \$600), but this change is not effective until 2026. ■

