“The Act” (One Big Beautiful Bill) is Law– Now What?

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Steve has been with Canon Capital since 1999 and has been practicing in public accounting for over 30 years. He received his BS in Accounting/Business Management with a minor in Psychology from Eastern Mennonite University. He is a member of the AICPA, the PICPA, the National College Advocacy Group and the AICPA Tax, Personal Financial Planning and the Forensic and Valuation Services sections. Steve specializes in tax, estates and trusts, personal financial and college planning services, and business tax planning. He also has significant experience in church, non-profit, and private foundation tax areas. In addition to being a CPA he also holds the Personal Financial Specialist (PFS) designation, the Chartered Global Management Accountant (CGMA) and the Certified Specialist in Estate Planning (CSEP) designation. Steve and his wife reside in Souderton. Steve has three children and enjoys traveling, playing sports, gardening, and bicycling.

Brent Thompson
Director and Manager

Brent joined Canon Capital in 1998 and is responsible for providing management advisory services, tax and general business planning, tax preparation, and financial statement preparation and review services for numerous businesses and their owners. In addition, he assists the firm directors with scheduling, staff development, and business development. He earned his Bachelor of Business Administration degree from Temple University. In addition to holding his CPA designation he also holds the Certified Management Accountant (CMA) designation and a Chartered Global Management Accountant (CGMA) designation. Brent is a member of the AICPA and the Institute of CMA's, and is a former instructor of business development courses at Montgomery County Community College. He has also served on the Economic Restructuring Committee for the Souderton/Telford downtown revitalization efforts and the Stewardship Committee for Keystone Fellowship. He is a former treasurer of the Indian Valley Chamber of Commerce. Brent resides in Souderton with his wife and son. He enjoys boating, water-skiing, and working on home improvement projects.

Disclaimer

- Today’s presentation is for general introduction only.
- Regulations have to be written and the law interpreted.
- Thus, this presentation may not be entirely accurate and should not be relied on for planning purposes.
- Dollar amounts shown are generally for Married Filing Joint returns, other filing statuses most likely have different amounts

We're *EARLY* in the Process

Implementation guidance

- Treasury proposed regulations and final regulations
- IRS revenue procedures and revenue rulings
- IRS form and publication changes
- IRS notices
- IRS FAQs
- IRS announcements
- IRS website

What We Will Cover Today

- "We're talking about taxes"
- Go through the Act pulling out the provisions that will affect larger groups of taxpayers
- Not presenting in order of Bill or effective dates/expiration dates of the provisions
- Review of various effective dates, planning issues around them
- Going to be a fast presentation

The Bill – OBBBA (H.R.1)(The Bill)

- Signed into law by the President on July 4, 2025
- +850 pages
- Table of Contents alone is 12 pages (fine print)
- I’ve seen Executive Summaries over 50 pages
- One of, if not the largest bills passed

Individual Provisions….

Individual Rates

- TCJA rates and brackets generally made permanent
- Slight upward adjustment to top of the 10% and 12% brackets – granting additional relief to lower income taxpayers
  - Looked at as an additional one year “inflation adjustment”
- Permanent repeal of personal exemptions
- Effective 2026 – was due to sunset after 2025

Standard Deduction

(and termination of personal exemptions)

- Increased TCJA standard deductions made permanent
- Slight Increase permanent as well
- Effective 2025

	2025 TCJA	2025 OBBBA	2026 If Sunset
Single	15,000	15,750	8,300
HoH	22,500	23,625	9,350
MFJ	30,000	31,500	16,600
MFS	15,000	15,750	6,350

Enhancement to Child and Dependent Credits

- Permanent starting in 2025
- Increases potential credit from $2,000 to $2,200 – indexes for inflation for 2026+
- Increases the refundable portion to $1,700 in 2025 – indexes for inflation 2026+
- Decreases the earned income threshold at which taxpayers may qualify to claim the credit
- Increased the MAGI threshold for start of phase out, $400K Joint $200K others, NOT adjusted for inflation
- $500 for other dependents becomes permanent, not adjusted for inflation

State and Local Tax (SALT)

The bill increases the deduction cap from current $10K under TCJA to $40K in 2025, with slight increases through 2028 – then reverts back to $10K in 2029+

The deduction is reduced by 30% of modified AGI over $500,000 (w/slight increases in future years), but not reduced below the $10,000

Mortgage Interest

- TCJA reduced the loan principal which could incur deductible interest from $1M to $750K of *acquisition* indebtedness (equity indebtedness is not deductible)
- OBBBA makes TCJA permanent at $750K *NOT* indexed for inflation
- OBBBA restored the deductibility of mortgage insurance premiums starting in 2026

Charitable Donations

- Reinstatement of a $1,000 ($2,000 MFJ) "above the line" deduction for non-itemizers effective 2026 – cash donations only
- For itemizers, a new itemized contribution "floor" limitation of .5% effective 2026
- For itemizers, cash contribution limits are now permanently 60% effective 2026
- Corporate rules for limits and carryforward of deductions also changed effective 2026

199A (QBID)

- Becomes Permanent Law at 20%, was set to sunset
- Increased Phase-out range(s), starting 2026
- New minimum $400 deduction for taxpayers with at least $1,000 of QBI available starting in 2026

Problems with Phaseouts and Projections

	Before QBI Phaseout	After QBI Phaseout	Increase
Taxable Income/QBI	$400,000	$550,000	$150,000
QBID Deduction(20%)	$80,000	$ -0-	
Taxable Income	$320,000	$550,000	$230,000

For $150K of additional income, you'll end up with $230K additional taxable income. Thus, effective tax rates on that additional income can be well over 50%

This dynamic will happen with Tip and Overtime Deductions, Senior Deduction, 199A, Child Tax Credits, SALT and Others

Nothing is "simple" any longer

Changes to AMT in 2026

- The OBBBA's changes to the individual AMT are primarily to make permanent the higher exemption amounts and phaseout thresholds that were originally enacted as temporary measures under the Tax Cuts and Jobs Act (TCJA).
- The OBBBA's changes are intended to provide continued relief from the AMT for middle- and upper-middle-income taxpayers, while maintaining the AMT as a backstop for higher-income individuals.
- That being said, with higher SALT deduction (not deductible for AMT purposes), we may start seeing more AMT

Expansion of 529 Eligible Expenses

- K-12 eligible expenses expanded list of eligible expenses, including some tutoring, fees for standardized tests, AP exams, and others effective after 7/4/25
- New post secondary expenses (see next slide) are now eligible for distributions effective after 7/4/25
- Both categories above have 20K limit, effective for distributions after 12/31/25. 2024 dollar limits are $10K

529 Qualified Expenses

- Now include "qualified postsecondary credentialing expenses" defined as:
  - Is on a state list under the Workforce Innovation and Opportunity Act
  - Is listed in the public directory of the Web Enabled Approval Management System of the Veterans Benefits Administration
  - *Prepares individuals for an exam required for a credential*
  - *Is identified as a reputable for obtaining a recognized postsecondary credential*
- Need further guidance, but think electricians, plumbers, CPAs, healthcare, technology, etc.
- Effective immediately

NEW – Senior Personal Exemption

- For years 2025 through 2028
- $6,000 per person ($12,000 per joint)
- Available for taxpayers who have obtained age 65, we believe handled as exemption, need guidance
- Phased out by 6% of the amount MAGI exceeds $75,000 ($150,000 MFJ)
- Existing income-based exclusion of benefits remains unchanged ($25K single/$32K MFJ)
- <u>Observation</u> – this was the workaround for no tax on Social Security – based on averages – will sunset……….

NEW – No Tax on Tips

- New deduction available in 2025-2028, we believe on page 1
- Up to $25,000 per year in total – we believe right now on the premium, but need guidance
- Deduction is reduced by $100 for each $1,000 MAGI exceeds $150,000 ($300,000 MFJ)(Can not claim with MFS)
- Tips eligible for the deduction must be included on statements furnished to the taxpayer (most likely W2/1099s) – although 2025 can be "reasonably estimated"

NEW – No Tax on Tips

- IRS Guidance – required to publish a list of occupations no later than 90 days after the date of the enactment that will be eligible
- Tips must be voluntary, not negotiated, and not received in SSTBs (what about tips automatically added to parties of 6 or more?)

In addition, FICA tip credit expanded to include beauty services (barber, hair care, nail care, esthetics, spas)

NEW – No Tax on Overtime

- New deduction available in 2025-2028
- Up to $12,500 per year, per taxpayer, we believe on page 1
- Deduction is reduced by $100 for every $1,000 MAGI exceeds $150,000 ($300,000 MFJ)(Can not claim MFS)
- Overtime has to be paid under section 7 of the FLSA.
  - Can not “double dip” with tip income
- Overtime compensation has to be reported on W2 (although taxpayer can “reasonably estimate” for 2025 if not reported on W2)

NEW – No Tax on Car Loan Interest

- New deduction available 2025-2028, we believe on page 1, not itemized
- Up to $10,000 of car loan interest, per year
- Deduction starts a phase out at $100,000 of MAGI ($200,000 MFJ)
- To qualify
  - Debt incurred after 12/31/24 for purchase of new personal use vehicle
  - Vehicle to be a car, minivan, van, SUV, pickup or motorcycle with GVWR under 14,000 pounds
  - Vehicle final assembly in USA
  - Lenders to file information returns reporting interest to IRS > $600

NEW – No Tax on Car Loan Interest

- Excludes:
  - Fleet Sales
  - Used Cars
  - Cash Out Loans on Previous Purchased Vehicles
  - Lease Financing
  - Related Party Loans

NEW– Tax Credit for Contributions to Scholarship Granting Organizations

- Credit of up to $1,700 dollar-for-dollar per taxpayer per tax year
- Organization must be a Code Sec. 501(c)(3), and must maintain separate accounts for qualified contributions for eligible students solely within the state in which the organization is listed.
- The State has to elect to participate in the program and provide IRS with list of organizations
- Credit is reduced by the amount allowed as a credit on any state tax return of the taxpayer
- Credit available in tax years ending after 12/31/26

NEW – Trump Accounts

- New Tax-Deferred Investment Accounts for Children
- Accounts eligible to receive contributions from parents, relatives, parents’ employers, other for profit and non-profit entities, and governments
- Accounts must be invested in a diversified fund that tracks an established index of U.S. equities
- Contributions limited to $5,000 (after tax, indexed) annually
- Distributions allowed after age 18, taxed as capital gains if used for college, starting a business, or first home. Can be converted to IRA, otherwise, taxed as ordinary income
- Federal Government will kick in $1,000 for children born between 1/1/25 and 12/31/28
- Effective after 7/4/26

Other OBBBA Provisions

- Miscellaneous Itemized Deductions – generally makes TCJA repeal permanent
  - Overall Itemized Deductions for 37% Bracket limited to a 35% benefit (2026)
- Educator Expenses – above the line deduction remains available with expansion of eligible expenses, but remainder is now available as a miscellaneous itemized deduction, effective 2026
- Personal Casualty Loss – generally makes TCJA modifications permanent, but governors can also declare disaster areas now
- Moving Expenses – generally makes TCJA repeal permanent (armed forces excluded)
- Student Loan Discharge – makes permanent the exclusion from income in the event of death or disability

Other OBBBA Provisions

Child Care Credit – enhanced credits and phase out ranges

Adoption Credit – $5,000 now refundable, indexed for inflation

Farms and Farming – a number of provisions for tax relief, including installment payments on sales of farms to farmers – installment payment over 4 years.

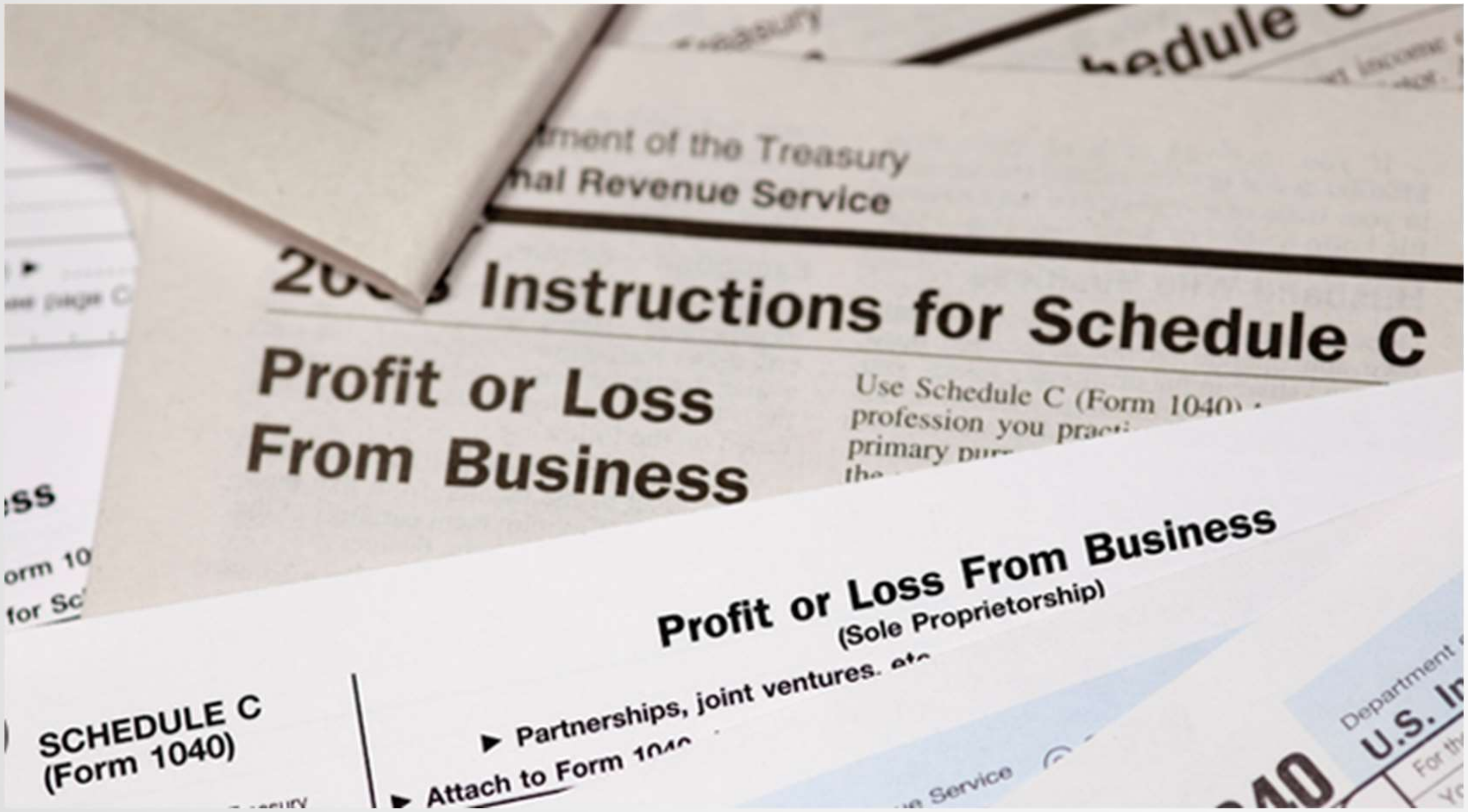
Other Notes

- Capital Gains Rates and breakpoints became permanent, but no other changes
- For child tax credits, senior deductions, and other several provisions, valid SS#s will be required

Estate and Gift Tax Exclusions

- TCJA doubled the basic exclusion amount through 2025 (indexed for inflation)
- Now made permanent at $15M for 2026 and indexed for inflation

Business Provisions…..



Non-Profits

- Non-profits largely unaffected by the tax provisions in the bill – however, there are excise taxes on private university endowments based on a per student value and punitive taxes for excessive compensation paid of non-profits

Bonus Depreciation

- Generally, 100% bonus depreciation re-instated for 2025 (placed in service after 1/19/25) and made permanent
- There is also a one year transition election available for the first tax year ending after 1/19/25 to elect 40% or 60% (depending on property) vs. 100% under new law since companies may have planned on lower rates

Section 179

- TCJA increased the limit of property eligible to expense to $1M and increased the beginning of phase out limit to $2.5M of property placed in service.
- OBBBA raises these thresholds to $2.5M and $4M respectively, indexed for inflation
- Effective tax years beginning after 12/31/24 (Now!!!)

NEW – Qualified Production Property

- For first time, allows accelerated depreciation on real property through an election
- Allows 100% depreciation deduction for qualified production property defined as:
  - Non-residential property
  - Used in integral part of qualified production activity
  - Placed in service in U.S.
  - Original use begins with the taxpayer (generally)
  - Not office space
  - Construction begins after 1/19/25 and before 1/1/29
  - Construction completed before 1/1/31
- Subject to 10-year recapture for sale or change in use of property

Qualified Production Activity

- Defined as:
  - 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

Dependent Care Assistance Programs (Flex Spending)

- Pre-OBBBA law allowed for income exclusion of up to $5,000 ($2,500 MFS) for employer provided dependent care assistance
- Starting after 12/31/25, raises the exclusion to $7,500/$3,750
- May need to amend plan documents etc.

Business Meals

- OBBBA, (with certain exceptions for fishing vessels or fish processing facilities), had little change on deductibility rules:
  - No deduction for entertainment remains
  - No 50% deduction for “employer convenience” meals to employees starting in 2026 (fishing allowed 100% deduction)
  - Client meals are still deductible at 50%
  - Certain company functions/meetings
    - Birthday celebrations
    - Holiday parties
    - Staff Meetings

1099-K Reporting

- Pre-OBBBA law (ARPA law) required third party payers to report to IRS transaction payments totaling over $2,500, reduced to $600 in 2026 (Think PayPal, Venmo, etc.)
- Effective for 2025, the de minimis aggregate threshold is exceeding ***BOTH*** $20,000 and 200 transactions

1099 Reporting

- Pre-OBBBA law – non-corporate entities providing services to a business had a $600 threshold.
- OBBBA, effective for 2026 the reporting threshold is raised to $2,000 and adjusted for inflation starting in 2027

Energy Incentives

- Credit for Previously Owned Clean Vehicles – Terminated effective 9/30/25
- Clean Vehicle Credit – terminates 9/30/25
- Commercial Clean Vehicle Credit – terminates 9/30/25
- Energy Efficient Home Improvement Credit (windows, doors, insulation, etc.) – terminates 12/31/25
- Residential Clean Energy Credit (solar) – terminates 12/31/25

Energy Incentives

- Credits for energy efficient commercial and residential buildings terminates 6/30/26
- Clean Electric Investment Credit (commercial solar, wind, nuclear) – terminates 12/31/27

Qualified Small Business Stock Expansion (C-corps)

- For qualifying dispositions (a lot of qualifiers) a new tiered system of gain exclusion for stock issued after enactment
  - After 3 years 50% exclusion
  - After 4 years 75% exclusion
  - After 5 years 100% exclusion
- Prior law and current law have a number of limits and qualifiers

Opportunity Zones

- OBBBA makes the program permanent with no sunset of deferral election
- Governors may nominate up to 25% of a state's low-income census tracts a QOZs, subject to Secretary of Treasury certification
- OBBBA has updated definitions and eligibility to enhance and clarify tax benefits, and expands transparency requirements

Other OBBBA Provisions

- R&D Expenses – Expenses for domestic expenditures reinstated, and provides for retroactive election for 2022-2024 for small businesses
- Interest Expense Limitation – raises definition of adjusted taxable income to not include depreciation and amortization – thus higher limit can be expensed
- Paid Family & Medical Leave – enhancements and extensions effective after 12/31/25

Other OBBBA Provisions

- Exclusion for Employer Student Loan Payments – made permanent for employers with education assistance programs – tax free to employees
- ERC Enforcement – contains provisions to go after fraudulent promoters and recovery – extends statute to 6 years, no payment for any claims filed after 1/31/24

Not in the Bill

- Corporate Tax Rates to 15%
- Elimination of tax on Social Security
- Did not include HSA expansions included in the House version
- House version had QBID at 23% vs. 20%

Recap – What's Next

- Due by 10/2 – IRS guidance on tipped occupations and reporting, including transition relief for 2025
- Need further guidance on new provisions like car loan interest and manufacturing facility construction as examples……..
  - What meets "final assembly in the U.S."
  - What defines "construction start date"
- Technical Corrections Bill coming
  - This will be first major law passed after Loper Bright decision by Supreme Court, allowing more interpretations by the court system. Thus, expecting a little more detailed guidance from Treasury and in the technical corrections bill
- Government Funding Bill past 9/30

State of the IRS

- *Overall*, lost about 25% of their workforce in 2025 due to cuts and early retirement buyouts
  - IT lost about 27%, Enforcement +30%, Leadership +50%
- Currently dealing with and Executive Order that they should move to paperless payment system by September 30, 2025
- Currently trying to move to digitally process paper-filed returns
- Currently phasing out Filing Information Returns Electronic (FIRE) system (2026 last year) for Information Returns Intake System (IRIS) for
- Now they have to implement this law…………..

State of the IRS

- All of the previous slide with a 20% reduction in their FY 2026 budget ($9.8B) from FY 2025

Final Thoughts

- Law has both “good” and “bad” tax policy
- With all the phaseouts and additional deductions, grouping itemized deductions, or grouping income is more important than ever
- Planning becomes more difficult. Software needed to handle all the phase outs and effective dates
- Large Refunds expected for 2025 tax year
- More complicated forms W4 on the way!!!!

Final Thoughts

- Prior to this law, approximately 32% of filers (approx. 51M of 340M population) had no tax liability. Clearly, this law will mathematically give full relief to a number of more taxpayers, shifting the burden to fewer individuals.

- Other than depreciation and business provisions, this law has very little, if anything, for high earning taxpayers over TCJA law. New deductions mostly have phase-outs.

- Beware of information on the internet!!!!!

NEW PA ANNUAL REPORTS

- As you should be aware from previous communication, PA established a new requirement starting in 2025 whereby Corporations, Limited Liability Companies, Limited Partnerships, Limited Liability General Partnerships, Professional Associations and Non-Profits must file an Annual Report.
- Corporations were due 6/30/25, Limited Liability companies are due 9/30/25 and all others are due 12/31/25.
- There is a $7 fee (free for Non-profits) and the Report must be Filed online at dos.pa.gov/annualreports.
- Failure to file can result in dissolution, termination or cancellation of your business registration (and the use of your business name).

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Final Questions/Answers

One Source, Many Services, The Right Decision.

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