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CPAs and Advisors

Navigating the OBBA Era

Signature Tax Event

November 13, 2025



Agenda

- Individual Tax Updates
- Business Tax Updates
- International Tax Updates
- Q&A

Speakers



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Individual Tax Updates

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Introduction to the OBBBA – Individual Tax Changes

- **Overview of the One Big Beautiful Bill Act (P.L. 119-21, H.R. 1)**
 - Signed into law July 4, 2025
 - Makes many of the earlier Tax Cuts and Jobs Act (TCJA) provisions permanent
 - Introduces new individual tax changes (some permanent, some temporary, some retroactive)
 - Effective dates apply tax year 2025 and others in 2026 or later
 - Another major Act, SECURE 2.0, has often been overlooked by other major Acts

Charitable Contributions – Three New Rules

1. New AGI Floor for Itemizers (2026 – permanent)

For tax years after 2025, itemized charitable deductions are only allowed to the extent they **exceed 0.5% of AGI**. Applies in a specific order from lowest priority to highest priority (e.g., from the 20% to the 60% AGI thresholds for charitable deductions)

Example: A couple with AGI of \$1,000,000 contributed cash of \$100,000 to a public charity (60% AGI limit), and \$200,000 of appreciated stock to a donor-advised fund (30% AGI limit)

The \$5,000 floor would first be applied against the lowest-priority gifts. Therefore, \$5,000 floor would first be applied to reduce the \$200,000 of appreciated stock to the donor-advised fund, which is subject to the 30% AGI limit, and the gift of cash is unaffected

BD Insights

High-income taxpayers who itemize deductions will want to examine the timing, amount, and types of donations they are giving and employ strategies to maximize their deduction. (e.g., gift in 2025)

*Consider **bunching contributions** by making larger gifts less frequently, or QCDs from an IRA. This ordering is codified in the statute to ensure that the contributions with the lowest AGI limitation—those that are already most restricted in their deductibility—are the first to be reduced by the floor.****

Charitable Contributions – Three New Rules

2. Permanent Above-the-Line Deduction for Non-Itemizers (2026)

Up to \$1,000 (\$2,000 joint) for cash gifts to qualifying charities, available **even if standard deduction is claimed but is not available if you itemize.**

BD Insight: *Since the TCJA raised the standard deduction amount, only about 10% of taxpayers itemize deductions. If you recall, there was a similar provision for a \$300 charitable deduction in the CARES Act during the “COVID years” of 2020 and 2021*

Charitable Contributions – Three New Rules

3. New Limits to Deductions for Itemizers in the Top Tax Bracket (2026 - permanent)

For those whose taxable income exceeds the threshold for the 37% bracket, the value of itemized deductions (including charitable contributions) is reduced by 2/37 of the lesser of (a) the total itemized deductions or (b) the amount by which taxable income exceeds the 37% bracket threshold

The calculation is tedious (**thank goodness for tax software!**). If a couple had taxable income of \$1,000,000 and had itemized deductions of \$100,000 of which \$50,000 were charitable contributions, the overall itemized deductions would take a deduction haircut of about \$5,000.

BD Insight: *Some may recall the “old” Pease limitation that phased out itemized deductions before it was suspended by TCJA, well, this is the “new” Pease limitation. The reduction is applied proportionately against all itemized deductions after other limitations (e.g., the .5% charitable floor, or SALT cap)*

Other items worth a mention

- Unused deductions can be carried forward for 5 years (no change)
- 60% AGI Limit for Cash Gifts to Public Charities made permanent
- You still **MUST** have proper documentation for contributions, and it varies for different amounts and types, and it's critical to cross your T's and dot your I's!!!

Taxation of Social Security Benefits (2025 through 2028)

- **No Change to Core Inclusion Rules**

Up to 85% of Social Security benefits includible in gross income, depending on modified AGI and filing status. Two-tiered system and related base income and adjusted base amounts remain the same

- **New Deduction of Up to \$6,000 Per “Qualified Individual”**

Applies to both itemizers and non-itemizers reported in new Schedule 1-A

Who qualifies: A "qualified individual" is any taxpayer who has attained age 65 before the close of the taxable year. For joint returns, each spouse who is age **65 or older** qualifies for a separate **\$6,000 deduction**, so a married couple where both spouses are 65+ can claim up to **\$12,000 total**

Stackable: This new deduction **is in addition** to the existing additional standard deduction for seniors and the blind, and it does not replace the existing \$2,000 (inflation-adjusted) standard deduction increase for seniors; both can be claimed if eligible

Phaseout Thresholds: The \$6,000 deduction is reduced (but not below zero) by 6% of the amount by which the taxpayer's modified adjusted gross income (MAGI) exceeds

- \$75,000 for single filers (fully phased out at \$175,000)
- \$150,000 for joint filers (fully phased out at \$250,000)

Taxation of Overtime Wages and Tips

- Temporary Deduction for Overtime Pay (2025–2028)

Applies to both itemizers and non-itemizers reported on new Schedule 1-A

Deduction up to **\$12,500 (\$25,000 joint)** for qualified overtime pay per year

Phase out at higher incomes is phased out by \$100 for each \$1,000 over the thresholds

- \$150,000 for single filers (phased out at \$275,000)
- \$300,000 for joint filers (phased out at \$550,000)
- \$0.00 for married filing separate filers

BD Insight: The IRS notes that employers and payors may not have systems or procedures in place to comply with the new reporting rules for the 2025 tax year; the IRS will treat 2025 as a transition period, per Notice 2025-62. For tax year 2025 only, the **IRS will not impose penalties** under IRC § 6721 (failure to file correct information returns) or IRC § 6722 (failure to furnish correct payee statements) for failures to separately report amounts designated as tips, occupation, and overtime

Taxation of Overtime Wages and Tips

- **Temporary Deduction for Qualified Tips (2025–2028)**

Deduction up to **\$25,000 per year** for qualified tips **per return** (i.e., not per each spouse for joint filers)

Applies to cash tips in traditionally tipped occupations (guidance provided)

Phase out at higher incomes is phased out by \$100 for each \$1,000 over the thresholds

- \$150,000 for single filers (phased out at \$400,000)
- \$300,000 for joint filers (phased out at \$550,000)
- \$0.00 for married filing separate filers

New reporting requirements and compliance burdens for employers

- Employers still report the overtime wages and tips on the W-2, and separate them from other compensation
- Employers still withhold FICA/MED

BD Insight: *Despite the administrative payroll compliance burden, in a competitive hiring market, employers in industries where employees customarily and regularly receive overtime or tips pay may be at a **competitive advantage** over other service industries because of the significant deductions available to workers. A taxpayer can **claim both the tips and overtime deductions in the same year**. A bipartisan group of lawmakers has introduced the No Tax on Overtime for All Workers Act (H.R. 5475) to extend the new federal tax deduction for overtime pay to more workers since some workers were left out. ****

Tax Deduction for Auto Loan Interest

- **Deduction for Car Loan Interest (2025–2028)**

Up to **\$10,000/year** deductible for interest on loans originating after December 31, 2024, for **new - U.S. assembled passenger vehicles** (less than 14,000 lbs.)

Phase-out begins at modified AGI:

- \$100,000 (single)
- \$200,000 (joint)

New reporting requirements for anyone (including dealerships) who receive interest aggregating more than \$600 from an individual in a calendar year

Applies to both itemizers and non-itemizers

BD Insight: *There will be a new tax form, Schedule 1-A, to report the new additional deductions (auto loan interest, tips, overtime, and enhanced senior deduction). No impact on Itemized deductions since the deduction is above-the-line, so it does not reduce the amount of itemized deductions a taxpayer may claim... remember the new "Pease limitation."*

Disaster Losses Relief – Expanded Deduction

- **Casualty Loss Deduction Expanded**

Deduction for personal casualty losses now available for both federally **or** state-declared disasters (previous law was federal only)

The \$100 per casualty and 10% of AGI floors remain, EXCEPT where Congress enacts special relief for specific disasters. (see insight below)

Applies to losses in taxable years beginning after December 31, 2025

BD Insight: *The Federal Disaster Relief Act of 2023* was enacted by Congress and **eliminated the 10% AGI floor**, raised the per-casualty floor to \$500, and allowed an **“above the line” deduction** (i.e., do not need to itemize). Disasters declared between January 1, 2020, and February 10, 2025, with an incident period must have begun on or after December 28, 2019, and on or before December 12, 2024, and must have ended no later than January 11, 2025. (**Milton** - 2024, **Helene** – 2024 and **Ian** - 2022, **East Palestine, OH** – 2023, and many others but with the 2025 CA wildfires being specifically excluded). **Amend the tax return** if the special relief was missed

SALT Cap and PTET Deductions

- **State and Local Tax (SALT) Deduction Cap (2025 to 2029)**

Cap increased to **\$40,000 (\$20,000 MFS)**, indexed for inflation

Reverts to \$10,000 after 2029

The **phase-out** for high-income taxpayers in 2025 (**indexed for inflation**)

- \$500,000 of MAGI (single and MFJ)
- \$250,000 of MAGI (MFS)

For taxpayers whose MAGI exceeds the applicable threshold, the SALT deduction cap is reduced by 30% of the excess MAGI over the threshold but not less than \$10,000

$$\text{Adjusted SALT Cap} = \text{Stated Cap} - [30\% \times (\text{MAGI} - \text{Threshold})]$$

BD Insight: *this tax benefit (for itemizers) has an **aggressive phase-out formula**. A married couple filing joint with \$600,000 of MAGI will be right back to the \$10,000 SALT deduction*

$$\$10,000 = \$40,000 - [30\% \times (\$600,000 - \$500,000)]$$

Nonetheless, if the increased SALT deduction results in a higher number of itemizers, it could potentially allow them to deduct more of their charitable contributions

SALT Cap and PTET Deductions

- **PTET (Pass-Through Entity Tax) Deductions**

OBBBA does **not limit the SALT cap workaround** for PTET elections

Noncorporate owners can deduct their share of PTET paid by the entity

BD Insight: *The PTET is a great work-around for the SALT cap for pass-through entity holders (sole proprietors in some states). It is different than the pass-through tax withholding regime which is not a PTET payment, and some states have both (OH, KY, and IN). Also, be cognizant of the S-corp rules for pro-rata distributions, and two classes of stock. And realize that the tax benefit rule applies.*

Review your shareholder agreement or operating agreement (LLC taxes as an S-corp) with your attorney !!

Estate Tax Provisions – Higher Exemption

- **Federal Estate and Gift Tax Exemption**

2025: \$13.99 million (single), \$27.98 million (married couple)

2026 and after: \$15 million (single), \$30 million (married couple), indexed for inflation starting 2027

Applies to estate, gift, and GST taxes

No change to annual gift exclusion (\$19,000 for 2025)

Top rate remains 40%

BD Insight: *Take time to review your estate and gift plan and update for documents for the provisions in the OBBBA. Make sure your basis estate docs (**Will, POA, Advance Health Care Directive, and trusts**) are up-to-date. Estate planning is not just for the super-wealthy*

Overview of SECURE Act 2.0

- Signed into law December 29, 2022
- Builds upon the original SECURE Act (2019) with 90+ provisions spanning 2023-2027 implementation
- Purpose: enhance retirement savings access, increase flexibility, modernize rules
- Today's focus
 - Increased individual contribution & catch-up limits
 - Continuation/enhancement of mega back-door Roth strategies
 - Changes to RMD rules

BD Insight: *The SECURE Act and SECURE 2.0 have been under the radar of many businesses due other concurrent Acts. SECURE Act by the CARES act and now 2.0 by the OBBBA. Nonetheless, SECURE 2.0 has some significant tax matters coming into play*

Increased Contribution Limits – Catch-Up Contributions

- **Catch-Up Contributions for Ages 50+**

For 2025, the regular catch-up limit for 401(k), 403(b), and governmental 457(b) plans is **\$7,500** (indexed for inflation)

For SIMPLE plans, the catch-up limit is **\$3,500** (indexed for inflation)

- **New “Super” Catch-Up for Ages 60-63 (Effective 2025)**

The greater of \$10,000 or 150% of the regular catch-up limit:

- **\$11,250** for non-SIMPLE plans ($\$7,500 \times 150\%$)
- **\$5,250** for SIMPLE plans in 2025

Applies only to participants who turn age 60, 61, 62, or 63 during the tax year (e.g., if you are age 63 at the beginning of the year and turn age 64 before the end of the taxable year, you are not eligible for that year)

BD Insight: *Employers need to reach out to their TPA to update the plan document to allow for this increased catch-up provision if the document does not clearly provide for the increased limit*

Catch-Up Contributions – Roth Requirement for High Earners

- **Mandatory Roth Treatment (Was Effective 2024, now applies for 2026)**

Employees with prior-year Social Security **wages** over \$145,000 must make catch-up contributions as Roth (after-tax) contributions

Does not apply to SIMPLE IRAs or SEPs

If a plan does not offer a Roth option, highly compensated employees cannot make catch-up contributions

BD Insights: *This provision was not implemented in 2024 since plan sponsors and administrators were concerned about having enough time to update plans. Final regulations were released in September 2025 that the ROTH catch-up requirement will generally apply to taxable years after December 31, 2025.*

Update your plan documents so that the catch-up contributions are not disallowed. **Note:** the ROTH catch-up requirement **does NOT apply to sole proprietors, or partners of a partnership**

Mega Backdoor Roth – Expanded Roth Opportunities

- **Mega Backdoor Roth Overview**

A strategy where a participant makes **after-tax contributions** to a 401(k) (or other qualified plan) above the standard deferral limit, and then either (a) does an in-plan Roth conversion or (b) in-service rollover to a Roth IRA, thereby achieving large Roth funding

Under the SECURE ACT 2.0, the strategy is not eliminated and remains available in plans that allow after-tax and in-plan Roth conversion features

Mega Backdoor Roth – Expanded Roth Opportunities

Example – In 2025, Edward, age 45, makes \$200,000 and works for a company that offers a 401(k) plan, and matches 5% of compensation. **The plan allows (1) after-tax employee contributions** (not just pre-tax or Roth elective deferrals), **(2) in-plan Roth conversions**, and **(3) in-service withdrawals/rollovers to a Roth IRA**

Edward's elective deferral is \$23,500 and elects to contribute the \$23,500 pre-tax (can be pre-tax or a ROTH), and the employer matches \$10,000 for a total of \$33,500 to the plan

The maximum after-tax contribution limit is \$70,000 for 2025, so he has room for another \$36,500 (\$70,000 - \$33,500) and makes an after-tax contribution of \$36,500 to the plan and immediately does an **in-plan ROTH conversion** (or in-service rollover to a ROTH IRA) to minimize earnings

Results

- When Edward converts the after-tax contributions to Roth, the original after-tax contributions are not taxed again
- Any earnings on those after-tax contributions prior to conversion are taxable as ordinary income in the year of conversion
- Edward has \$23,500 pre-tax deferral, \$10,000 employer match, and \$36,500 after tax contribution for a total of \$70,000

BD Insight: The after-tax contributions can come from payroll deductions to spread the amount over the year. Some people may not have enough to contribute the full \$36,500 but can contribute a lesser amount. **This method of getting money in a ROTH does not have the pitfalls of traditional “Back door ROTH contribution:** where a contribution is made to a Regular IRA and the converted to a ROTH under the pro-rata rule.

Other Items of Interest:

- **Other Items of Interest**

Employers may now allow **Roth** treatment **for employer matching contributions** (optional, not required) Previously only employee elective deferrals (salary reduction) could be designated as ROTH contributions.

SIMPLE and SEP IRAs can now accept Roth contributions if the employee elects

BD Insights:

This provides the employee with more control over the treatment of their retirement savings

Remember, catch-up contributions for high earners must be Roth (see prior slide) beginning in 2026. And the employer must allow after-tax contributions and in-plan conversions or in-service distributions; therefore, update the plan document

Required Minimum Distributions (RMDs) – Age Changes

- **RMD Start Age Increased**
 - For individuals turning 73 after December 31, 2022, RMDs begin at age 73
 - For those turning 74 after December 31, 2032, RMDs begin at age 75
- **First RMD Deadline**
 - April 1 of the year following the year the individual reaches the applicable age
 - Subsequent RMDs due by December 31 each year
- **Excise Tax on Missed RMDs**
 - Reduced from 50% to 25% of the shortfall
 - Further reduced to 10% if corrected during the “correction window” and reported on Form 5329
- **Correction Window**
 - Ends at the earliest of: IRS notice of deficiency, assessment of tax, or last day of the second tax year after the year of the missed RMD
- **RMDs No Longer Required from Roth 401(k) Accounts (Effective 2024)**
 - Aligns Roth 401(k) treatment with Roth IRAs, which have never required lifetime RMDs

RMDs – Annuitization Parity (Partial Annuitization Rule)

- **SECURE 2.0 Section 204**

Eliminates penalty for partial annuitization of retirement accounts

RMDs from non-annuitized portion are reduced by the amount of annuity payments received, achieving parity with non-annuitized accounts

Effective immediately, taxpayers may rely on reasonably good faith interpretations until regulations are updated

Example: *If a participant has a \$200,000 annuity (paying \$18,500/year) and a \$275,000 non-annuitized balance, the total RMD is calculated on \$475,000. If the total RMD is \$20,042, and the annuity pays \$18,500, only \$1,542 must be withdrawn from the non-annuitized portion*

Business Tax Updates

Brandon Cook



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OBBBA Business Changes - Summary

- Like the individual provisions, OBBBA either made permanent, or extended, many items that were expiring at the end of 2025, or in the process of being phased out
- Key business items that were part of OBBBA
 - Bonus Depreciation – now permanent
 - Increased Section 179 limits
 - Repeal of R&D expense amortization under Section 174
 - Making the QBI Deduction (Section 199A) permanent
 - More favorable business interest expense limitations
 - No changes to the C-Corp 21% flat income tax rate

Depreciation Updates – Bonus and Section 179

- Bonus depreciation is restored to 100% as of 1/19/25, generally available to any property with useful lives up to 20-years
 - For 2025, you can still elect 40% bonus in lieu of the full 100%
 - Reminder - Bonus is mandatory for qualified property unless you elect out
- Increased Section 179 limit and phaseout threshold
 - Up from \$1M to \$2.5M limit with a phaseout threshold of \$4M
 - Section 179 may be more useful than bonus depreciation pending state conformity rules surrounding both bonus depreciation and 179
- Planning opportunity

Like prior years, in many cases it will make sense to accelerate capital expenditure purchases prior to year-end to accelerate tax deductions

NEW - Qualified Production Property - Sec 168(n)

- Potential for 100% expensing on a new production facility/building
- Property must be non-residential
- Construction begins after 1/19/25 and before 1/1/29. Property then must be placed in service before 2031
- Eligible activities include manufacturing, refining, production (agricultural or chemical)
- Specific excluded building usage includes
 - Office/admin buildings
 - Restaurants
 - Sales
 - Research
 - Software development and engineering



R&D Expenses – Section 174

- Prior to OBBBA, domestic R&D expenses occurring after 12/31/2021 were to be amortized over 5 years and foreign R&D expenses amortized over 15 years
- **NEW RULE** – OBBBA made permanent the immediate expensing of domestic R&D expenses beginning in 2025
 - Foreign R&D expenses still amortized over 15 years
- Remaining unamortized R&D from tax years 2022 – 2024 can be deducted in 2025 or spread evenly over tax years 2025 and 2026
- Options available for amendments for tax years 2022 – 2024 pending size of business

R&D Expenses – Section 174 (cont.)

- Small business taxpayers have the option to amend tax years 2022 – 2024 and apply the new R&D expensing rules for those tax years
 - Small business taxpayers = have average annual gross receipts of < \$31M.
 - Must amend by the earlier of July 6, 2026, or three years from the time the original return was filed
 - Rev-Proc 2025-28 covers the general procedures for amending related to Section 174 changes
- If small business taxpayers choose to amend, they must amend all three tax years (2022-2024)
- Must also update the amended tax returns to conform to the Section 280C(c) provisions
 - Reduce the deductible expenses by the amount of the gross credit, or claim a reduced overall credit
 - OBBBA allows a late election related to the 280C(c) election

R&D Expenses – Section 174 (cont.)

- Large businesses (> \$31M avg gross receipts) do not have the option to amend '22-24
- Planning opportunity for companies under the \$31M gross receipts threshold – general considerations are
 - Does it make sense to go back and amend three separate tax years vs taking the remaining deductions all in 2025 (or 50/50 in 2025-2026)?
 - Analysis needed on effective income tax rates for all years impacted
 - High income years in 2022-24 but low income expected for 2025-2026? May make sense to go back and amend
 - How long will it take to get the cash refunds? Anyone's guess...

Section 199A Qualified Business Income Deduction

- OBBBA made the deduction permanent
 - Was set to expire at the end of 2025
- The deduction remains at 20% of an individual's QBI
- Higher thresholds before phase-out limitations kick in
- New minimum \$400 deduction added for taxpayers with at least \$1,000 of QBI
- Overall, the deduction basically remains the same as it's been since its inception in 2017

Section 199A – Pre- and Post- OBBBA Comparison

	Old Law (2017-2025)	2026 and after (Post OBBBA)
Expiration date	Set to expire after 2025	Permanent, no expiration date
Calculation mechanics	Lesser of 20% of QBI or 20% of taxable income	Same
AGI thresholds where SSTB limitations begin / W-2 wages limitations begin applying for non-SSTBs	\$197,300 (394,600 MFJ)	\$201,775 (\$403,500 MFJ)
Phase-in range for limitations	\$50,000 (\$100,000 MFJ)	\$75,000 (\$150,000 joint), indexed for inflation
AGI for deduction elimination (SSTB)	\$247,300 (\$494,600)	\$276,775 (\$553,500 MFJ)
Schedule A Pease limitations	N/A	No impact on QBI deduction

Section 199A – Planning Opportunities

- Aggregation election at the 1040 level for related businesses
- Navigating the wage limitation
 - Use the “2/7ths” rule – it’s just a mathematical computation to get QBI and the 50% wage limitation to equal one another
- Example: Tiger Enterprises (an S-Corp owned 100% by one individual) has taxable income of \$1M before owner wages is declared. Tiger is not an SSTB and has no other employees

	Taxable Income	Less: Wages	Adjusted Taxable Income	QBI (20%)	Wage Limitation (50%)	QBI after Wage Limitation	QBI Tax Savings (37%)
Before 2/7 Rule	\$1,000,000	\$100,000	\$900,000	\$180,000	\$50,000	\$50,000	\$18,500
Using 2/7 Rule	\$1,000,000	\$285,714	\$714,286	\$142,857	\$142,857	\$142,857	\$52,857

Interest Expense Limitation Changes - Sec 163(j)

- OBBBA reinstated the “old” limitation calculation related to business interest for companies subject to 163(j)
- Depreciation and Amortization are now addbacks to the adjusted taxable income calculation related to Section 163(j)
 - Generally speaking, this change will increase the amount of current year deductible interest expense for companies subject to the limitation

Interest Expense limitation - Comparison

- Company had \$500,000 of taxable income with the following components
 - \$300,000 of interest expense
 - \$400,000 of depreciation and amortization
 - Company is subject to the 163(j) limitations

	Pre-OBBBA (post 2021)	OBBBA updates (2025)
Taxable Income before 163(j)	\$ 500,000	\$ 500,000
Add: Interest Expense	300,000	300,000
Add: Depr & Amort	N/A	400,000
Adjusted Taxable Income	\$ 800,000	\$ 1,200,000
Limitation %	30%	30%
Interest Expense limitation	\$ 240,000	\$ 360,000
Deductible Interest	\$ 240,000	\$ 300,000
Interest Expense CFWD	\$ 60,000	N/A

Pass Through Entity Taxes – Business Deductibility

- OBBBA preserved the federal deductibility of state pass-through entity taxes paid by the entities
 - Important to note that there is no limitation at the business level related to business deductibility
- In most situations, the PTET election provides a greater amount of deductions to the individual shareholders
 - If itemized deductions are limited due to the SALT cap, the PTET election ensures the state taxes are deductible (at the business level).
- For LLCs in particular, the PTET election helps to reduce SE tax at the individual level by lowering the overall SE income that shows up on the partner's K-1

Employee Retention Tax Credits Updates

- OBBBA prevents the IRS from allowing any claims for 2021 Q3-Q4 if they were filed after 1/31/24
- Extended the statute of limitations to six years (up from 5 years)
- Increased penalties for fraudulent promoters of the ERTC:
 - 20% penalty on erroneous refund claims

Section 461 – Excess Business Loss Limitations

- OBBBA made Section 461(I) permanent related to the Excess Business Loss (EBL) limitations
 - Was set to expire at the end of 2028
- For 2025, EBL's occur when a non-corporate taxpayer's business losses exceed \$313,000 (single) / \$626,000 (MFJ).
 - The thresholds reset to \$250,000 (single) and \$500,000 (jointly) for 2026 and will become inflation adjusted in subsequent years
- The excess becomes non-deductible in the current year but is carried forward into future years and is converted into a net operating loss carryforward
 - NOLs carryforward indefinitely

IRC §1202 – Qualified Small Business Stock (QSBS) Changes

- **For QSBS Acquired After July 4, 2025**

Enhanced QSBS rules aggregate gross assets (balance sheet) limit for issuer increased from \$50M to \$75M (indexed for inflation after 2026)

Phased gain exclusion

- 50% exclusion after 3 years
- 75% exclusion after 4 years
- 100% exclusion after 5 years

Per-issuer gain exclusion limit increased from \$10M to \$15M (indexed for inflation), and the alternative cap of 10 times aggregate basis remains unchanged

Excluded gain not subject to AMT

- Planning opportunity/consideration related to new business formations

IRC §1202 – Qualified Small Business Stock (QSBS) Changes

Language was added to clarify acquisition date applying holding period tacking rules (gifted stock, death, property contributed for stock, and some reorganizations)

BD Insight: *This phased approach allows for partial exclusion of gain for earlier exits, providing more flexibility for investors and founders who may not hold stock for a full five years*

Property Contributions Holding Period - Conflict Between §1202(i) and §1202(a)(6)(B):

There is a recognized tension between the specific rule in §1202(i) (which starts the holding period at the date of the exchange) and the more general reference to §1223 in §1202(a)(6)(B) (which could suggest tacking the holding period of the contributed property)

We interpret the new acquisition date laws to mean that, for property-for-stock exchanges, the holding period for QSBS begins on the date of the exchange, not the date the contributed property was originally acquired. The tacking rule in §1223 is not applied for this purpose, because §1202(i) is more specific and was not overridden by the OBBBA amendments

C-Corps – Charitable Deduction Changes

- Effective for tax years beginning after 12/31/25, charitable contributions must now exceed 1% of taxable income to be deductible
- If total charitable contributions are below 1% of the corporation's taxable income, the deduction is lost and NOT carried over to future years
- The overall 10% of taxable income cap on the charitable deduction still exists
 - The 5-year carryover still exists for charity in excess of 10% of the C-Corp's taxable income
- **Example:** For 2026, a C-Corporation has \$200,000 of taxable income before \$3,000 of charitable contributions. The corporation will only be able to deduct \$1,000 of its charity and the other \$2k will become non-deductible and NOT carried over
[$\$200,000 \times 1\% = \$2,000$. $\$3,000$ charity less $\$2,000$ threshold = $\$1,000$ deduction]

Employer Tip Credit

- OBBBA now allows the employer tax credit to be claimed for other services business
 - Previously limited to food and beverage services
 - OBBBA now allows this business tax credit areas for
 - Salons
 - Nail care
 - Spa treatments
 - Barber / hair care

Employer-Provided Fringe Benefits

- Student loan assistance now made permanent
 - Employers can make non-taxable contributions towards employees' student loans (Section 127) up to \$5,250 per year. Will be adjusted for inflation annually starting in 2027
- Moving expenses assistance now permanently removed
 - Was set to return in 2026
- Dependent care assistance increased to \$7,500 in 2026 (was \$5,000)
- Meals provided on the employer's premises for the employer's convenience no longer deductible after 2025 (had been 50% deductible since the TCJA)
- Exceptions: Food & Beverage industry and the Fishing industry
- The tax credit for employers who offer family and medical leave (Section 45S) has been expanded and now made permanent

Paid Family and Medical Leave Credit

- The employer tax credit under Section 45S for paid family and medical leave has been expanded and now made permanent
 - More employers will now qualify to take the credit – changes effective beginning in 2026
- Types of paid leave
 - Maternity/paternity leave
 - Caretaker leave for an employee's spouse, child, or parent who has a serious health condition
 - A serious health condition for the employee that makes them unable to work
- Eligible employees
 - Must have worked for the employer for at least six months
 - For 2026, employees with compensation > \$96,000 will not be eligible for the credit computation
- Credit calculation
 - A 12.5% - 25% credit range for qualified paid leave wages, or a percentage of the insurance policy premiums if the employer offers an insurance policy that covers paid family and medical leave
 - If the employer pays the full normal wage during leave, the credit percentage will be 25%
 - Up to 12 weeks of pay are eligible for the credit

Paid Family and Medical Leave Credit (cont.)

- Assume BD Corp, an Ohio company, implemented a 12-week paid family and medical leave program that covers 100% of employees' regular wages. The State of Ohio does not have a state-mandated paid leave wages program. The employees who received paid family and medical leave all made less than \$96,000 annually

	5 Qualified Employees	10 Qualified Employees
Leave wages per EE	\$15,000	\$15,000
State-paid leave wages	N/A	N/A
Employer eligible wages (per EE)	\$15,000	\$15,000
Credit Percentage	25%	25%
Credit Per Employee	\$3,750	\$3,750
Total Company Tax Credit	\$18,750	\$37,500

Energy Incentives Updates

- OBBBA made several changes to existing energy related business tax credits
- OBBBA terminates or modifies the production timeline for
 - Section 179D deduction for property where construction begins after June 30, 2026
 - Section 45Y and 48E Solar and Wind Energy investment credits
 - Section 30C (EV charging stations) and Section 45W commercial clean vehicle credit
- Elimination of individual home energy-efficient improvements tax credits
 - Previously could be claimed for items such as
 - Insulation
 - Windows
 - Exterior doors
 - HVAC systems
 - Credit expires as of 12/31/25 and will not be available for any of these purchases after 12/31/25

Updates to Opportunity Zones

- OBBBA made Opportunity Zones (OZ) permanent
- OZs established every 10 years, with the next designation set for 1/1/27
- Taxpayers who invest capital gains into a Qualified Opportunity Fund (QOF) after 12/31/26 will be able to defer recognition of those capital gains for 5 years, or when the QOF is sold, whichever is earlier
 - Will receive a 10% basis step-up on the original deferred gain if the QOF investment is held at least 5 years
- Basis adjustment in the QOF
 - If the taxpayer holds the QOF investment at least 10 years, they can step-up their basis in the QOF to the FMV as of the date of QOF investment sale
- There are more reporting requirements related to OZs under OBBBA compared to the reporting requirements of the TCJA of 2017

Information Reporting Threshold Updates

- 1099 payment threshold for 1099-MISC and 1099-NEC will increase from \$600 to \$2,000. Effective for payments made after 12/31/25
 - Tax Year 2025 still subject to the \$600 threshold
 - The \$2,000 threshold will begin being adjusted for inflation annually in 2027
- Form 1099-K for 3rd Party Network payments
 - The American Rescue Plan Act of 2021 initially imposed a \$600 threshold with no minimum transaction requirement. However, the IRS has delayed those changes the past few years
 - OBBBA change – threshold increased to \$20,000 or 200 transactions for when a Form 1099-K is required to be issued
 - Effective for tax year 2025

International Tax Updates

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Common Outbound Alternatives

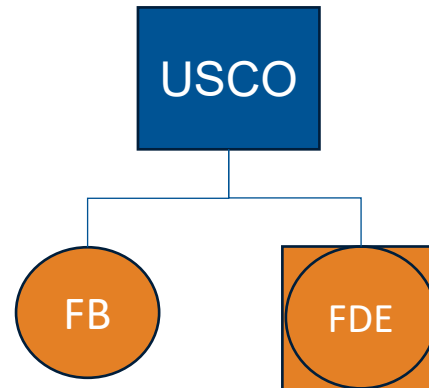
US Trade or Business with Export Sales



Taxation – USCO recognizes income/losses from foreign sales.

Foreign Derived Intangible Income (FDII) – potential for a US Corporation with export sales to receive a Section 250 deduction relating to export sales. May reduce corporate rate on export sales from 21% to 13.124%.

US Trade or Business with operating outside the US through a foreign branch or foreign disregarded entity



Foreign Branch – not a separate legal entity. USCO is operating a trade or business in a foreign country.

Foreign Disregarded Entity – an entity which is separate from its owner, but which elects to be disregarded as separate from its owner for US federal tax purposes.

Taxation - Income/losses of the FB/FDE are included in USCO return. Transactions between USCO and FB/FDE generally disregarded

Other Considerations – potential section 987, DCL, DPL, and OFL issues

US Trade or Business with operating outside the US through a foreign corporation



Controlled Foreign Corporation (CFC) - foreign corporation is a CFC if more than 50% of either the total combined voting power of its stock is entitled to vote or the total value of its stock is owned (or treated as owned) by US shareholders on any day during the year. IRC § 957

Subpart F – includes certain type of income of a CFC that is passed through (deemed dividend) to the US shareholder.

Global Intangible Low Tax Income (GILTI) – includes certain type of income of a CFC that is currently taxed at the US shareholder level. Section 250 deduction available for US corporate shareholders that may reduce tax rate from 21% to 10.5%.

Trade or Business/Permanent Establishments

Trade or Business

- Foundational concept for US federal tax law, not defined in the IRC or Treas. Regs.
- Under the IRC, a foreign company is subject to U.S. tax if it is engaged in a U.S. trade or business, but only on income "effectively connected" with that trade or business
- Trade or business is a lower threshold than PE
- Commissioner v Grotzinger

"To be engaged in a trade or business, the taxpayer must be involved in the activity with continuity and regularity, and the taxpayer's primary purpose for engaging in the activity must be for income or profit. A sporadic activity, a hobby, or an amusement diversion does not qualify."

Permanent Establishment (PE)

- Income Tax Treaty concept
- A PE is generally a "fixed place of business through which the business of an enterprise is wholly or partly carried on." Examples include a place of management, branch, office, factory, or workshop
- Certain activities, such as storage, display, delivery, purchasing, collecting information, or other activities of a preparatory or auxiliary character do not create a PE
- A PE can also be created through a dependent agent who habitually exercises authority to conclude contracts binding on the enterprise, unless the agent is independent and acting in the ordinary course of business
- The existence of a PE is a threshold for source country taxation of business profits under treaties
- If there is no PE, the source country generally cannot tax the business profits of the foreign enterprise, except for certain types of passive income (e.g., dividends, interest, royalties) which may be taxed under other treaty articles

Foreign Derived Intangible Income (FDII)

- Applicable ONLY to US C corporations and allows for a deduction
- FDII is income derived from: Sales or other dispositions of property to a foreign person for foreign use; a license of IP to a foreign person for a foreign use; and services provided to a person located outside the US
- Special rules apply for transactions with related parties
- Documentation requirements to certify foreign recipient's status and foreign use.
- FDII deduction subject to taxable income limitations

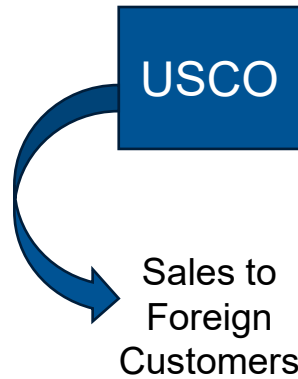
Pre-OBBBA

- 37.5% of its foreign derived intangible income (FDII)
- Effective corporate tax rate on export sales reduced from 21% to 13.125%
- Benefit reduced by deemed 10% return on qualified business asset investments (QBAI)
- Interest expense and R&E allocated against FDDEI for purposes of determining the deduction

Post-OBBBA: For tax years beginning after 12/31/2025

- 33.34% of its foreign derived deduction eligible income (FDDEI)
- Effective corporate tax rate on export sales reduced from 21% to 14%
- Reduction of benefit for the 10% deemed return on QBAI, interest expense and R&E allocations are eliminated

FDII Example



FDII

Assumptions

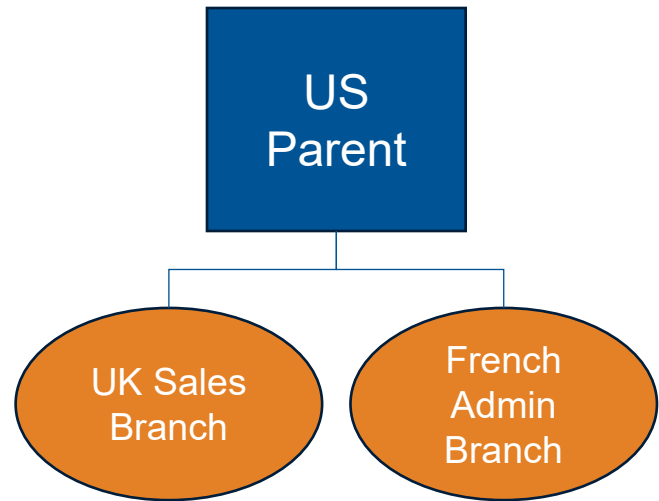
Total US Income	10,000
Foreign Derived Income	1,000
Qualified Business Asset Investment	5,000
Corporate Tax Rate	21%

	Pre-OBDDA	OBDDA
FDII		
Foreign Derived Income	1,000.00	1,000.00
Less 10% of QBAI	(500.00)	N/A
FDII	500.00	1,000.00
Deduction Percentage	37.50%	33.34%
FDII Deduction	187.50	333.40
Tax Benefit	39.38	70.01
US Tax on FDII	65.63	139.99
ETR	13.125%	14.00%

Section 987

- Final Regulations issued in December 2024 and effective for tax years beginning after December 31, 2024
- Provides a comprehensive framework for transitioning from a taxpayer's prior accounting method or accounting for foreign currency gain or loss with respect to a qualified business unit (QBU) to the new "foreign exchange exposure pool" (FEEP)
- Section 987 QBU – is an eligible QBU (a separate and clearly identified unit of a trade or business with separate books and records with a functional currency different from its owner)
- Transition rules apply to any individual or corporation of a Section 987 QBU on the transition date (generally 1/1/2025) and to owners of a terminating QBU
- Partnerships and S-Corporations are generally excluded from the transition rules but must apply a reasonable method consistent with the statute for Section 987 purposes

QBU – Example 1



- US Parent is a corporation that manufactures products
- US Parent has a U.K. sales branch that has its own employees, solicits and processes sales, and maintains a separate set of books and records
- US Parent has a branch in France that performs administrative functions (e.g., back-office accounting)
- US Parent, as a corporation, is a per se QBU
- UK branch is a QBU because its activities constitute a trade or business and separate books and records are maintained
- The French branch is not a QBU because its activities are ancillary and do not constitute a trade or business. §1.989(a)-(1)(e), example 3

QBU – Example 2



- US Parent owns a Netherlands entity that is classified as a disregarded entity for U.S. tax purposes. Separate books and records are maintained for the Netherlands DRE
- Netherlands DRE is a holding company with respect to US Parent's European subsidiaries
- Does Netherlands DRE constitute a QBU?
 - Holding Stock and servicing a liability does not constitute a trade or business. See Prop. §1.987-1(b)(7), example 1

OBBBA for CFC's

	Pre-OBBBA	OBBBA Effective for tax years beginning AFTER December 31, 2025
GILTI Corporate "Tax Rate"	<p>Through 2025</p> <ul style="list-style-type: none"> • \$250 deduction of 50%, §960(d) haircut of 20% <p>Tax Years beginning after 2025</p> <ul style="list-style-type: none"> • \$250 deduction of 37.5%, §960(d) haircut of 20% 	<ul style="list-style-type: none"> • \$250 deduction of 40%, §960(d) haircut of 10%
GILTI	<ul style="list-style-type: none"> • GILTI = excess of net CFC tested income ("NCTI") over net deemed tangible income return ("net DTIR," or "NDTIR") • NDTIR = 10% of QBAI reduced by certain interest expense 	<ul style="list-style-type: none"> • NDTIR eliminated. Taxpayer includes NCTI (rather than GILTI) in gross income.

OBBBA for CFC's

	Pre-OBBBA	OBBBA Effective for tax years beginning AFTER December 31, 2025
GILTI Foreign Tax Credits(FTCs)	<ul style="list-style-type: none"> Numerator of GILTI FTC limitation ratio reduced by expenses that may not “directly relate” to inclusions (e.g., interest, stewardship) 20% haircut for §960(d) GILTI FTCs No haircut on FTCs for GILTI PTEP distributions 	<ul style="list-style-type: none"> GILTI FTC limitation ratio expense allocations modified. The §250 deduction related to NCTI is allocated to the NCTI basket and deductions directly related to NCTI. All other deduction previously apportioned/allocated including interest and R&D are allocated to US source income. 10% haircut for §960(d) GILTI FTCs 10% FTC haircut for foreign income taxes paid/accrued (or deemed paid/accrued) on distributions of NCTI PTEP.

OBBBA for CFCs

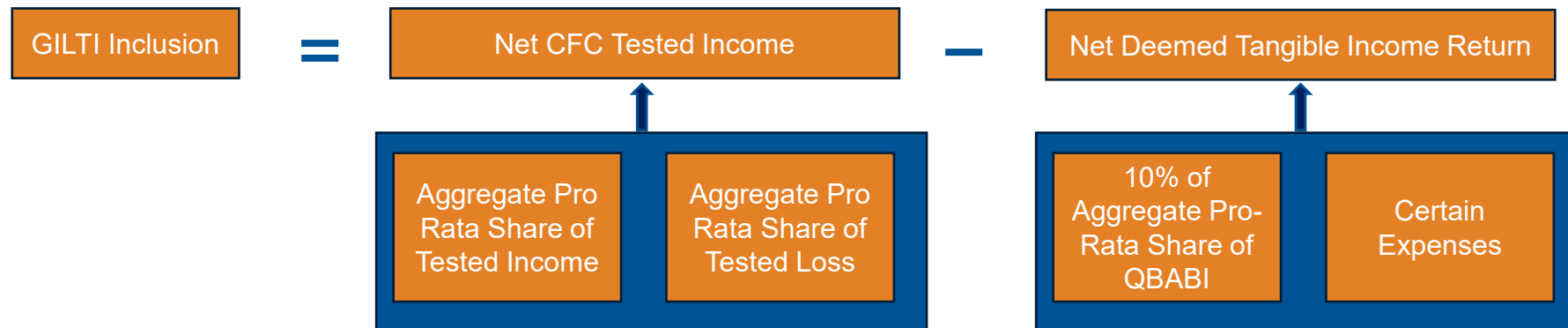
	Pre-OBBBA	OBBBA Effective for tax years beginning AFTER December 31, 2025
CFC Look-Through	<ul style="list-style-type: none">CFC look-through rule of §954(c)(6) applies to tax years of foreign corporations beginning before January 1, 2026	<ul style="list-style-type: none">§954(c)(6) extended permanently
One-Month Deferral Tax Years	<ul style="list-style-type: none">Specified foreign corporations may elect a tax year beginning 1 month earlier than the majority US shareholder under.	<ul style="list-style-type: none">Repeals 1- month deferral year election under §898(c)(2).Transition rule ends foreign corporation's first tax year beginning after November 30, 2024, on the date the required year ends.

OBBBA for CFC's

	Pre-OBBBA	OBBBA Effective for tax years beginning AFTER December 31, 2025
Downward Attribution Rules	<ul style="list-style-type: none"> • Repealed former §958(b)(4) which prevented downward attribution. • Stock owned by foreign parents was attributed to their US subsidiaries, which caused many foreign corporations to become CFCs even when no US shareholder had actual control or significant ownership. 	<ul style="list-style-type: none"> • Reinstated §958(b)(4) which prevented downward attribution. Stock owned by a foreign person is not attributed downward to a US person for CFC purposes.
Pro-rata Share Rules	<ul style="list-style-type: none"> • Pro-rata share generally based on the shareholders ownership on that last day of the CFC year, adjusted for certain distributions during the year. 	<ul style="list-style-type: none"> • Any shareholder who owns stock on any day during the CFC's taxable year must include in gross income their pro-rata share of the CFC's subpart F and NCTI.

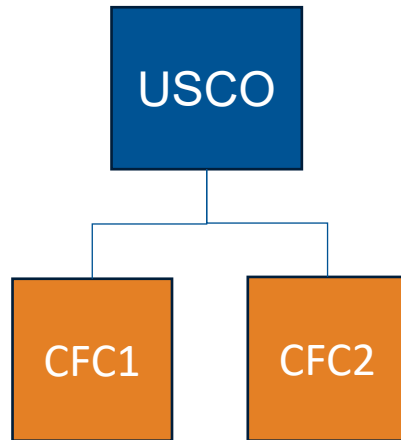
GILTI/Net CFC Tested Income

- Pre-OBBBA
 - GILTI is foreign income earned from a CFC for any US Shareholder that owns more than 10% of the CFC
 - GILTI is reduced by 10% of Qualified Business Asset Investment (QBAI) of a CFC
 - If entity has a loss, no QBAI
 - If there is a GILTI loss, this can only offset other GILTI income, otherwise ignored



- OBBBA – Effective for tax years beginning after December 31, 2025
 - A US Shareholder of any CFC for any taxable year must include in gross income its “net CFC tested income” (NCTI) for such taxable year

Example: GILTI/NCTI



	Pre - OBBBA			OBBBA		
	CFC1	CFC2	USCO	CFC1	CFC2	USCO
Tested Income/(Loss)	100.00	(50.00)		100.00	(50.00)	
Foreign Tax	10.00	20.00		10.00	20.00	
QBAI	0.00	100.00		0.00	100.00	
GILTI			50.00			50.00
Section 78 Gross Up			5.00			5.00
FTCs			4.00 (Gross Up * 80%) (GILTI + Sec			4.50 (Gross Up * 90%) (GILTI + Sec
Section 250 Deduction			27.5078)*50%			22.0078)*40%

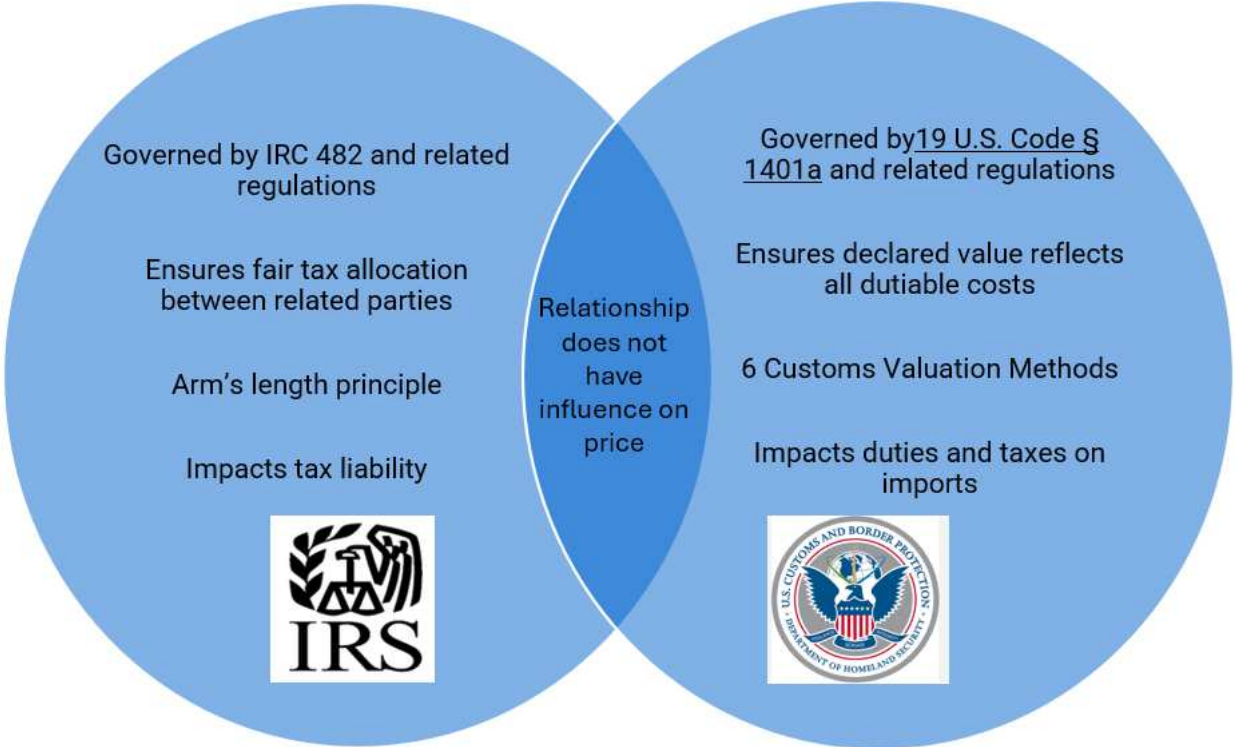
Tariff Mitigation Strategies

No One Size Fits All Approach

- Diversify suppliers
- Review/adjust contracts
- Inventory management
- On-shoring manufacturing
- Leverage Free Trade Agreements (FTAs) and Foreign Trade Zones (FTZs)
- Transfer Pricing

Transfer Pricing & Tariffs

Interplay between Tariff and Transfer Pricing



**Thank You.
Questions?**



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