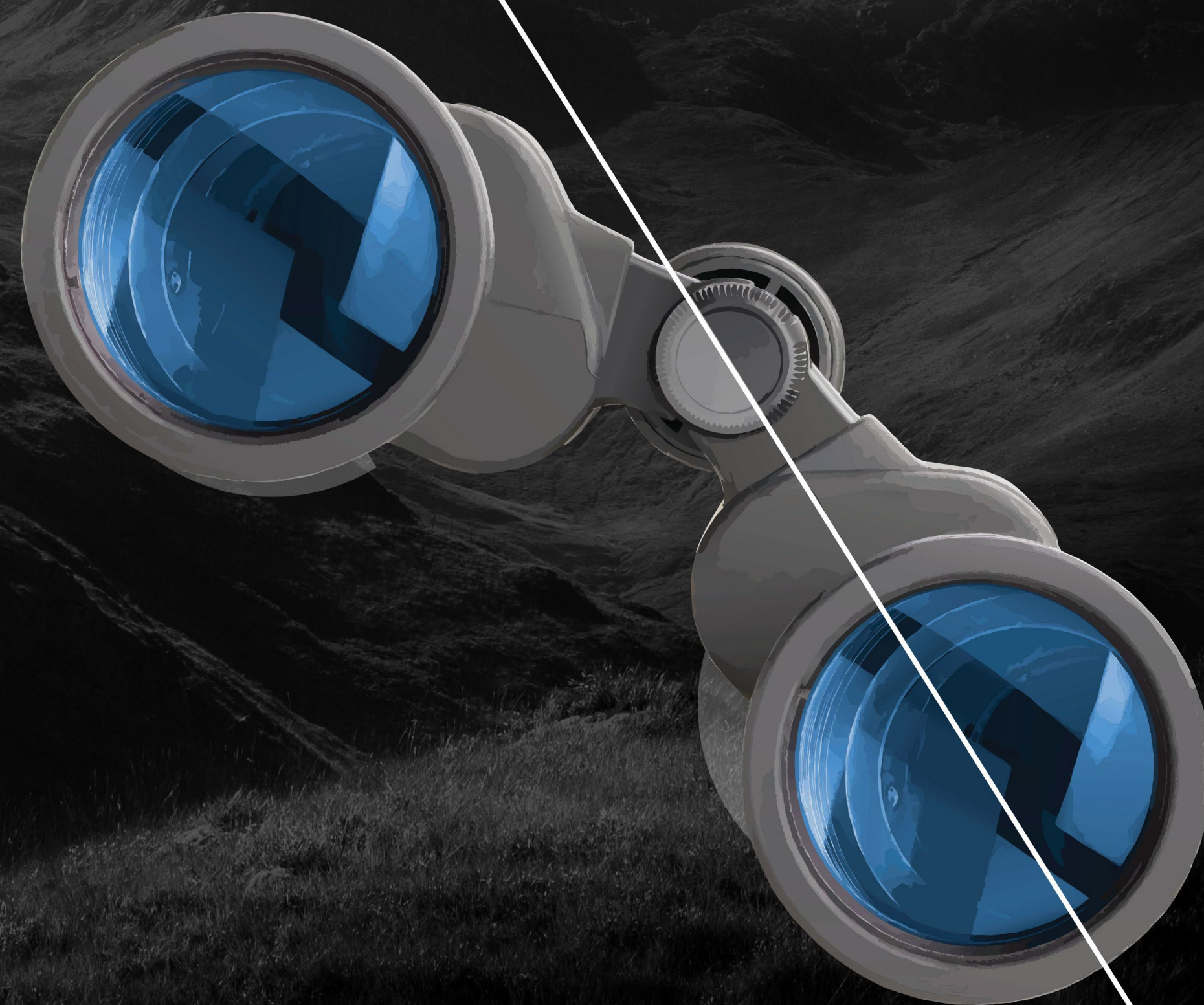


# NAVIGATING YOUR TAX STRATEGY

2025 WRAP UP & 2026 OUTLOOK





# YOUR TAX PLANNING OPPORTUNITIES

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**Anthony Licavoli**

Director | Tax Consulting  
Rehmann



**Mandy Chardoul**

Principal | Private Client Advisory  
Rehmann



**Paul Mene**

Senior Manager | Advisory & Tax  
Rehmann

# OB3 Background

## Tax reconciliation bill timeline – where are we at today and how did we get here?

Most TCJA individual tax provisions set to expire at the end of the year (lower tax rates, pass-through deduction, estate tax exemption) and additional business tax items continue to phase down or remain current unfavorable state (bonus depreciation, Sec. 174 R&D capitalization)

### APRIL

House Republicans narrowly passed a budget blueprint closing mirroring the budget outline passed by Senate Republicans (budget reconciliation process).

### MAY

The House of Representatives narrowly passed an amended version of the budget reconciliation bill, known as the **"One Big Beautiful Bill Act"**.

### JUNE

Senate is tool up the bill in June and made changes. Narrowly passed, House agreed to Senate version and signed into law **July 4**.



# OB3 Background

## What's included?

- **TCJA extensions**

The Tax Cuts and Jobs Act (TCJA), enacted during Trump's first term, is set to expire on December 31, 2025. While some provisions have already expired, Republican leaders have prioritized extending and modifying the TCJA. Early 2025 saw various bills proposing different approaches, ranging from wholesale extensions to modifications that either tighten or expand benefits.

- **Campaign promises**

The Trump campaign advocated for several individual tax policy changes, such as removing taxes on tips and overtime pay and benefits to US manufacturing. Most of the campaign's promises focused on providing benefits to individual taxpayers, particularly those with lower incomes.

- **Other items**

The bill includes specific targeted revenue raisers and controversial areas, such as the SALT cap, which have divided Congress both across and within party lines.

A top-down view of a desk with various items: a blue coffee cup on a matching saucer, a white keyboard, two black paper clips, a pair of black-rimmed glasses, a black pencil, and a small potted plant in the top left corner.

# **OB3 Business Provisions**



# OB3 Business Provisions

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## Qualified Business Income (QBI) Deduction

The QBI Deduction allows eligible taxpayers to deduct up to 20% of their qualified business income from a pass-through entity (S-corporations and partnerships).

- 20% deduction made permanent
- Effective 2026, existing phase-out range increased
- Final version did not adopt the 23% rate or other phase-outs changes

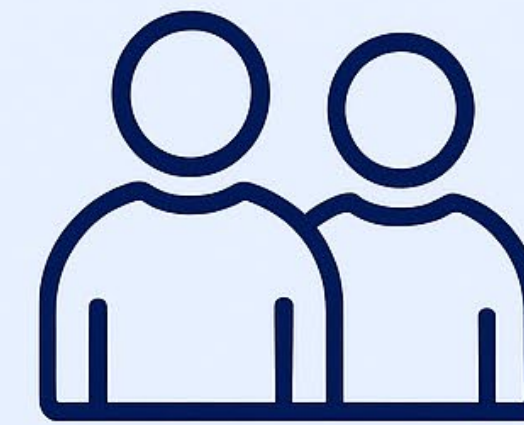
## TAX RATE COMPARISON



INDIVIDUAL

**37%**

(top rate)



S-CORP/  
PARTNERSHIP

**29.6%**

(QBI deduction)



C-  
CORPORATION

**21%**

(flat rate)

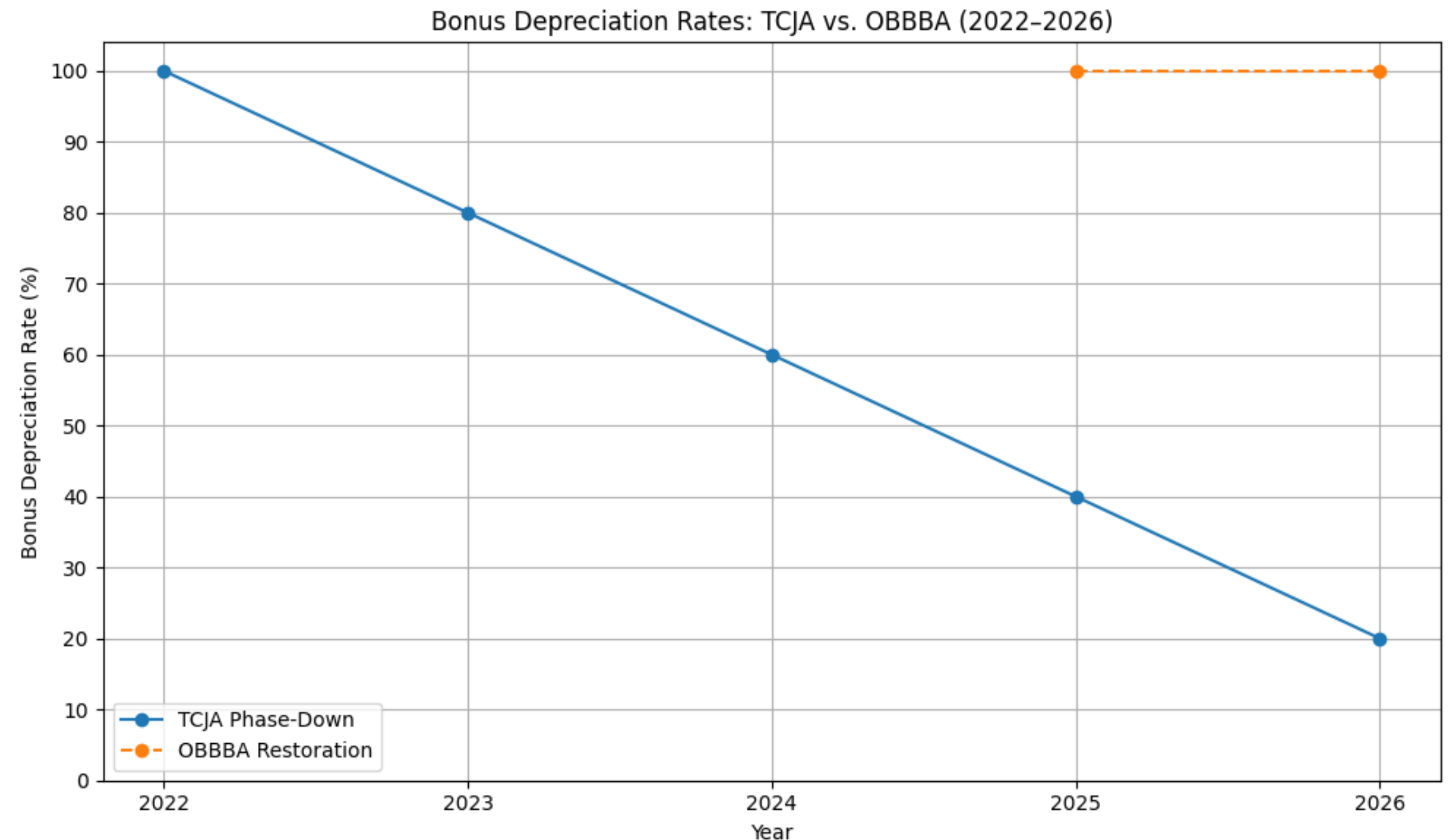
# OB3 Business Provisions

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## 100% Bonus Depreciation

Bonus depreciation allows businesses to immediately deduct **100% of the cost** of eligible assets in the year they are placed in service, instead of depreciating them over several years.

- 100 % bonus depreciation restored and made permanent
- Applies to property acquired on or after Jan. 20, 2025
- 40% bonus applies for property Jan. 1, 2025 - Jan. 19, 2025



# OB3 Business Provisions

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## Sec. 168(n) Qualified Production Property (QPP) Deduction

**QPP** is eligible for a **100% depreciation allowance**, allowing taxpayers to immediately deduct the full adjusted basis of eligible QPP in the year it is placed in service. QPP is defined as nonresidential real property that is used as an integral part of a **Qualified Production Activity (QPA)**.

### Key Terms and Characteristics

- . **Exclusions:** The definition specifically **excludes** portions of nonresidential real property used for functions **unrelated to qualified production activities**, such as offices, administrative services, lodging, parking, sales activities, research activities, software development, or engineering activities.
- . **Qualified Production Activity (QPA):** A QPA generally refers to the **manufacturing, production, or refining** of a "qualified product". The activities of the taxpayer must result in a substantial transformation of the property comprising the product. A qualified product is defined as tangible personal property, with an explicit exception for certain food and beverage products prepared in the same building as a retail outlet that sells those products.



# OB3 Business Provisions

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## Sec. 168(n) Qualified Production Property (QPP) Deduction

### Key Terms and Characteristics (continued)

- . **Original Use:** The original use of the property must commence with the taxpayer claiming the deduction. Certain exceptions apply for property that was not used in a QPA since January 1, 2021.
- . **Construction Start Date:** Construction of the QPP must begin after January 19, 2025, and before January 1, 2029.
- . **Placed-in-Service Date:** The property must be placed in service before January 1, 2031.
- . **Leased Property Restrictions:** QPP does not apply to property being leased or property acquired through related party transactions. What does this mean for related party leases?



# OB3 Business Provisions

## Unlocking Value: The Power of Cost Segregation Studies

**Cost segregation** is an IRS-compliant process that breaks down a property into its individual components. By reclassifying items that have a **shorter "useful life"** than the building itself, we can **accelerate depreciation** deductions and generate immediate tax savings. This strategy is essential for commercial and residential real estate investors aiming to improve their after-tax return on investment.

### Example

\$5M cost basis of a new non-residential building (39-year property)

**Scenario 1** – no cost segregation study

1st year depreciation: ~\$123,000

**Scenario 2** – cost segregation study (30% reclass to shorter useful lives (bonus eligible))

1st year depreciation: ~\$1,585,000

**Scenario 3** – cost segregation & QPP study (80% QPP and 30% reclass to shorter useful lives (bonus eligible))

1st year depreciation: ~\$4,320,000



# OB3 Business Provisions

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## Sec. 163(j) Interest Expense Limitation

The **Interest Expense Limitation** is a provision that **limits the amount of business interest** expense a taxpayer can deduct in a given year.

- Permanently restores the addback of depreciation, amortization and depletion in computing the 30% limitation effective for tax years beginning after December 31, 2024
- Expands the definition of a motor vehicle for the floor plan financing exception to include any trailer or camper
- Changes made to ATI calculation for certain foreign income items and capitalized interest

## 1099 Reporting Relief

- Increase the reporting threshold for Form 1099 to \$2,000 for 2026 and adjust for inflation payments made by a business for services performed by an independent contractor.
- Modify requirements for third-party settlement organizations to eliminate their reporting requirement (Form 1099-K) with respect to the transactions of their participating payees unless they have earned more than \$20,000 on more than 200 separate transactions in an applicable tax period.



# OB3 Other Provisions

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## Energy Credits and Incentives Rollback

Energy Credit/Incentive	IRA Rules	OBBBA Rules
Clean vehicle credit	Expired after Dec. 31, 2032.	Eliminated after Sept. 30, 2025.
Used clean vehicle credit	Expired after Dec. 31, 2032.	Eliminated after Sept. 30, 2025.
Commercial clean vehicle credit	Expired after Dec. 31, 2032.	Eliminated after Sept. 30, 2025.
Alternative fuel vehicle refueling property credit	Expired after Dec. 31, 2032.	Eliminated for projects placed in service after June 30, 2026.
Energy efficient home improvement credit	Expired after Dec. 31, 2032	Eliminated for projects placed in service after Dec. 31, 2025.
Residential clean energy credit	Expired after Dec. 31, 2034.	Eliminated for projects placed in service after Dec. 31, 2025.
Energy efficient home credit 45L	Expired after Dec. 31, 2032.	Eliminated for qualified homes acquired after June 30, 2026.
Energy efficient commercial buildings 179D		Eliminated for properties beginning construction after June 30, 2026.
Investment tax credit 48E	Will begin to phase out after the later of 2032	For wind or solar, the credit is eliminated for facilities placed in service after Dec. 31, 2027, except for such projects that begin construction before the date which is 12 months after the enactment of the law.



# New 174 R&E Rules + The Power of the R&D Tax Credit

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## Innovation Incentives Are Changing — What It Means for Your Business

- OB3 permanently restores immediate expensing for U.S.-based R&E starting in 2025
- Foreign R&E expenditures remain subject to 15-year amortization — creating a built-in financial advantage for performing innovation in the U.S.

## Why This Matters to You

- Immediate cash flow lift by deducting domestic R&E costs in the year incurred
- Strategic opportunity to onshore innovation, engineering, and product development
- Retroactive benefit potential for small businesses able to reclaim deductions from 2022–2024

## R&D Tax Credit: A Dollar-for-Dollar Incentive to Innovate

- The R&D Credit rewards activities that advance products, processes, software, or technologies — even if the project fails.
- The IRS Four-Part Test is designed to capture real-world engineering and development work across industries.

## Why Companies Use It

- Direct reduction of tax liability (or payroll taxes for eligible small businesses)
- Amplifies cash flow when paired with immediate expensing
- Qualifies costs such as employee wages, cloud hosting, prototyping materials, and contractor R&D

# OB3 Business Provisions

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## Joint Committee on Taxation Business Provisions Cost Estimates

Provision	Estimated Cost	Notes
Full expensing for certain business property	-\$362.65 billion	Permanent bonus depreciation
Full expensing of domestic research and experimental expenditures	-\$141.46 billion	R&D expensing restored and made permanent
Special depreciation allowance for qualified production property	-\$141.40 billion	New provision
Modification of limitation on business interest	-\$60.51 billion	Section 163(j) changes
Extension/enhancement of paid family and medical leave credit	-\$5.45 billion	Credit made permanent
Enhancement of employer-provided childcare credit	-\$731 million	Increases maximum credit and credit rate for businesses; new provisions for small businesses
Permanent renewal and enhancement of opportunity zones	-\$40.90 billion	Extends the tax benefits for qualified opportunity funds indefinitely; includes new reporting requirements.
1-percent floor on deduction of charitable contributions made by corporations	+\$16.60 billion	A new provision requiring corporate charitable contributions to exceed 1% of taxable income to be deductible.
Termination of green energy tax credits	+499.08 billion	



A top-down view of a desk setup. In the center-left is a bright blue ceramic coffee cup filled with dark liquid, sitting on a matching blue saucer. To the top-left is a portion of a white computer keyboard. Below the keyboard are two black paper clips. To the bottom-left is a dark grey notebook with a pair of black-rimmed glasses resting on it. A black pencil lies horizontally below the notebook. In the top-center, a small potted succulent is visible. The entire scene is set against a plain white background.

# **OB3**

# **Individual**

# **Provisions**

# OB3 Individual Provisions

## Individual Tax Provisions

### Tax Bracket Schedule and Rates

- Permanently extends the Tax Cuts and Jobs Act (TCJA) tax brackets.
- Maintains the top marginal rate at 37% (instead of reverting to 39.6% pre-TCJA).
- Boosts income thresholds for lower tax brackets.

Tax Rate Changes	Pre-TCJA (2017) Income Range	Post-TCJA (2018) Income Range
10%	\$0-\$18,650	\$0-\$19,050
15% → 12%	\$18,650-\$75,900	\$19,050-\$77,400
25% → 22%	\$75,900-\$153,100	\$77,400-\$165,000
28% → 24%	\$153,100-\$233,350	\$165,000-\$315,000
33% → 32%	\$233,350-\$416,700	\$315,000-\$400,000
35%	\$416,700-\$470,700	\$400,000-\$600,000
39.6% → 37%	\$470,700+	\$600,000+



# OB3 Individual Provisions

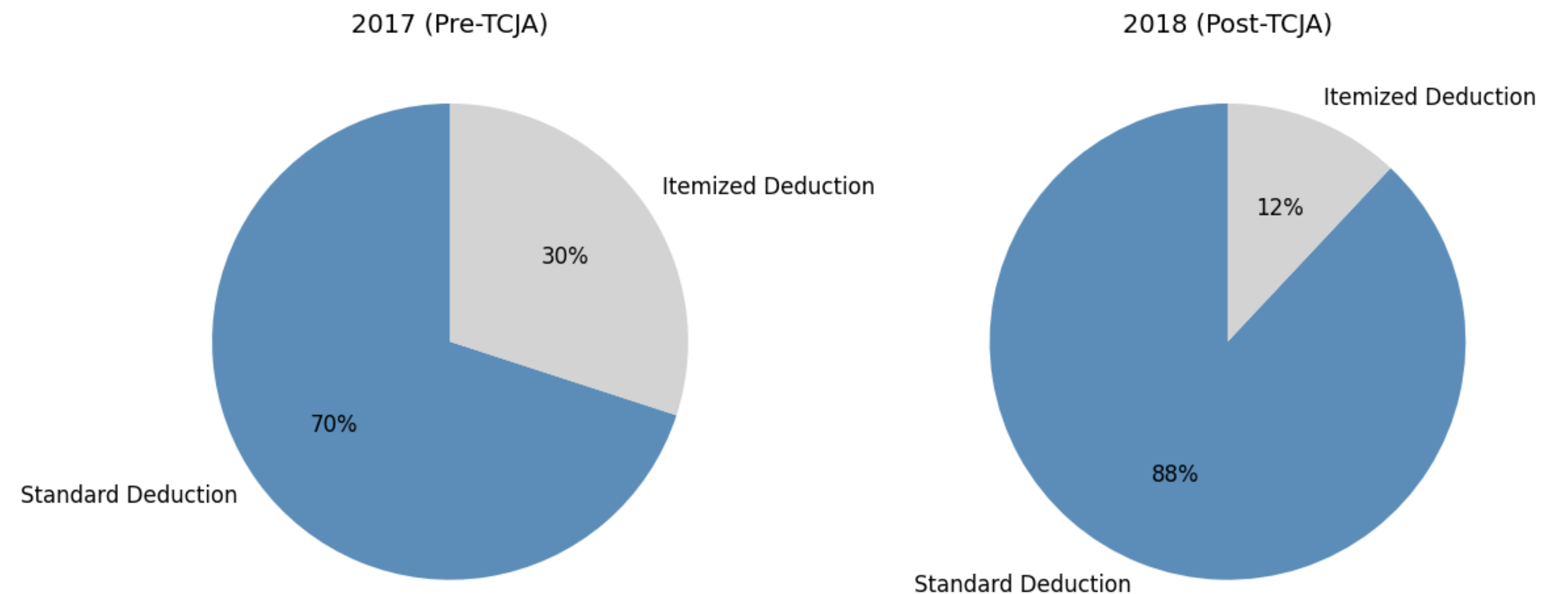
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## Individual Tax Provisions

### Standard Deduction

- Permanently extends the increased standard deduction from the TCJA.
- Adds further inflation adjustments starting in 2025:
  - \$31,500 for joint filers (up from \$30,000 under current law).
  - \$15,750 for single filers (up from \$15,000 under current law).
- These amounts will continue to increase annually with inflation.
- Permanently repeals the deduction for personal exemptions, continuing the TCJA policy.

Comparison of Standard Deduction Adoption: 2017 vs 2018



# OB3 Individual Provisions

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## Individual Tax Provisions

### Child Tax Credit

- Beginning in 2025, increases the Child Tax Credit to \$2,200.
- Notably, this amount will be adjusted annually for inflation

### Alternative Minimum Tax (AMT)

The Alternative Minimum Tax (AMT) is a separate tax calculation designed to ensure that high-income individuals, trusts, and corporations who take a large number of deductions and credits still pay a minimum amount of income tax.

- **Permanently extends** AMT exemptions and phase-out thresholds. Exemption amounts indexed for inflation from 2017.
- Increases the phase-out rate to 50% (vs. 25% under current law), steepening the claw-back for upper-income filers



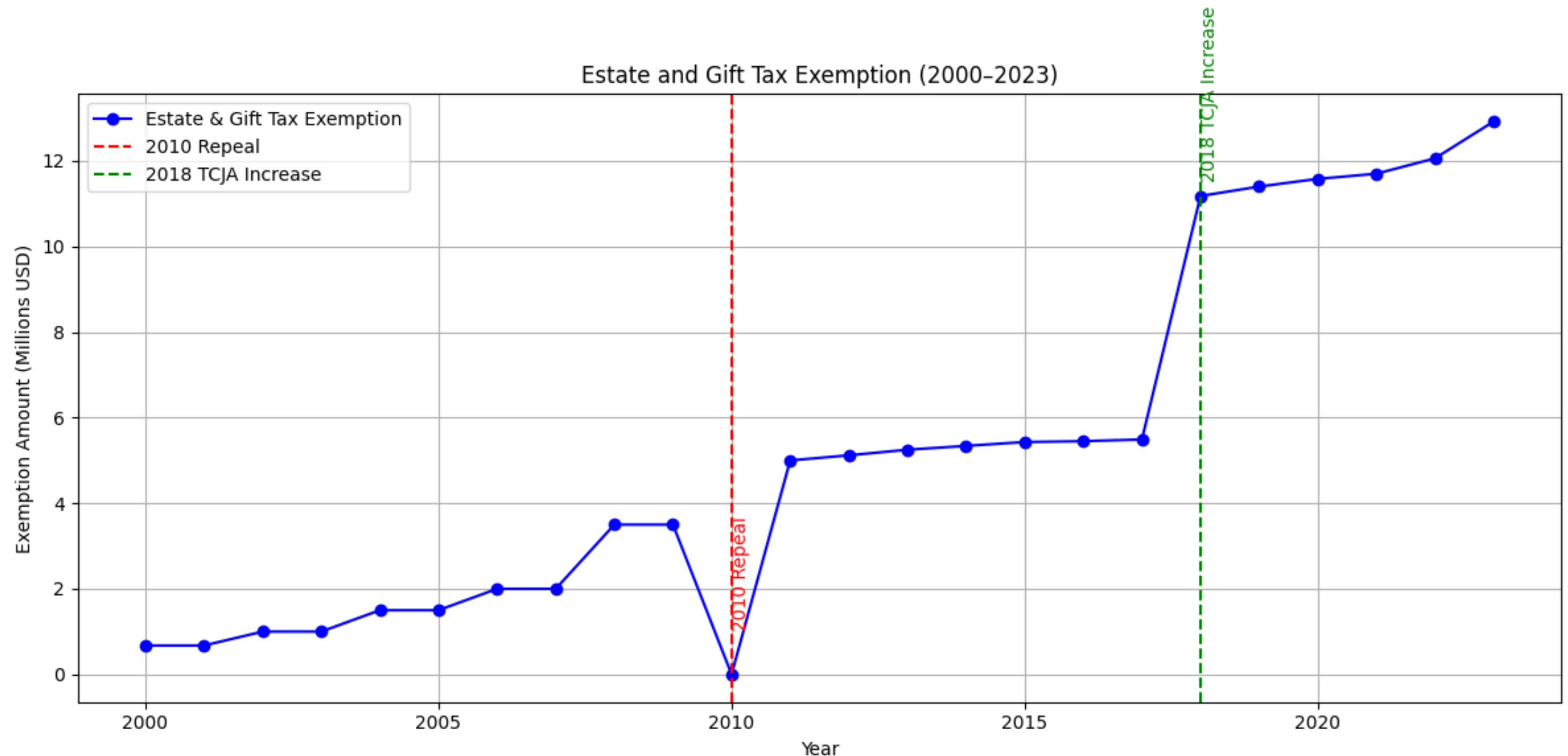
# OB3 Individual Provisions

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## Estate and Gift Tax Exemption

The estate and gift tax exemption is a unified lifetime **exclusion** that allows individuals to transfer a certain amount of assets to others during their life or at death without incurring federal estate or gift taxes.

- **Permanently** sets the estate and gift tax exemption at \$15 million, beginning in 2026.
- Amount will also be **increased for inflation** in subsequent years.



# OB3 Individual Provisions

## State and Local Tax (SALT) Cap

The **SALT cap** refers to the federal limit on **how much taxpayers can deduct** for state and local taxes—including property, income, and sales taxes—from their taxable income.

### Temporary SALT Cap Increase (2025–2029)

- Cap raised from \$10,000 to \$40,000 starting in 2025.
  - \$20,000 cap for married taxpayers filing separately.
- Annual adjustments:
  - 2026: Cap increases to \$40,400 (\$20,200 if filing separately).
  - 2027–2029: Cap increases by 1% annually.
- 2030 and beyond: Cap reverts to \$10,000 permanently.

### Income-Based Phase-Out (2025–2029)

- Begins in 2025 for high-income taxpayers:
  - Phase-out starts at \$500,000 modified AGI (\$250,000 if filing separately).
  - Deduction reduced by 30% of income above the threshold.
  - Fully phased out (reduced to \$10,000) at:
    - \$600,000 AGI (\$350,000 if filing separately).
- Thresholds increase annually by 1%:



# OB3 Individual Provisions

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## Charitable Contributions

### Deduction for Non-Itemizing Taxpayers

- Reintroduces a deduction for charitable contributions without requiring itemization.
- Permanent provision
- Deduction limits:
  - Up to \$2,000 for married joint filers.
  - Up to \$1,000 for all other filers.
- Available starting in tax year 2026.
- Must be cash - no Donor Advised Funds

### Charitable Deduction Floor for Itemizing Taxpayers

- Starting in 2026, individuals can only deduct charitable contributions that exceed 0.5% of a taxpayer's adjusted gross income (computed without regard to any NOL carryback to the taxable year)

### Scholarship Charitable Credit (NEW)

- Maximum \$1,700 per year credit for individuals who contribute to qualified scholarship granting organizations
- Cannot claim a charitable contribution deduction for any amount included in this credit

# OB3 Individual Provisions

## Qualified Tips Deduction (NEW)

- **Deduction Limit:** Individuals can deduct up to \$25,000 in qualified tips.
- **Income-Based Phase-Out:**
  - The deduction is reduced by 10% for every dollar an individual's modified AGI exceeds \$150,000 (\$300,000 for joint filers).
  - It is completely phased out for individuals with a modified AGI of \$400,000 or more (\$550,000 for joint filers).
- **Eligibility for Tips:**
  - Tips must be from a job "customarily and regularly" associated with tips prior to 2025.
  - The Treasury Department will release a list of qualifying occupations within 90 days of OB3B's enactment.
- **Applicability:** Available to both employees and independent contractors, regardless of whether they itemize deductions.
- **Reporting Requirements:** Employers and payors must generally include tips on W-2s, Forms 1099-NEC, and similar information reports
- **Effective Period:** This deduction is available for tax years 2025 through 2028.



# OB3 Individual Provisions

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## Overtime Compensation Deduction (NEW)

- **Deduction Limits:**
  - Individuals can deduct a maximum of \$12,500 per year.
  - Joint filers can deduct up to \$25,000 per year.
- **Income-Based Phase-Out:**
  - The deduction phases out at a rate of 10% for every dollar of modified Adjusted Gross Income (AGI) exceeding \$150,000 (\$300,000 for joint filers).
- **Definition of "Qualified Overtime Compensation":**
  - Defined by the Fair Labor Standards Act (FLSA).
  - Generally refers to the 50% extra amount paid to workers for overtime hours.
- **Employer Reporting:** Employers will be required to report qualified overtime compensation separately on W-2 forms.
- **Effective Period:** This deduction is available for tax years 2025 through 2028.

# OB3 Individual Provisions

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## Enhanced Deduction for Seniors (NEW)

- **Eligibility:** Taxpayers aged **65 or older** by the end of the tax year.
- **Deduction Amount:**
  - Up to \$6,000 for individuals.
  - Up to \$12,000 for married couples filing jointly if both spouses are 65+.
- **Phase-Out Threshold:**
  - Begins at \$75,000 modified AGI for individuals.
  - Begins at \$150,000 modified AGI for joint filers.
- **Phase-Out Rate:**
  - Deduction is reduced by 6% of the income above the threshold (\$175K individual, \$250K joint).
- **Effective Period:** This deduction is available for tax years 2025 through 2028.



# OB3 Individual Provisions

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## Car Loan Interest Deduction (NEW)

- **Maximum deduction:** Up to \$10,000 per year.
- **Available to all taxpayers,** including those who do not itemize deductions.
- **Income-based phase-out:**
  - Begins at \$100,000 modified AGI for individuals (\$200,000 for joint filers).
  - Fully phased out at \$150,000 for individuals (\$250,000 for joint filers).
- **Eligible vehicles:**
  - Must be new personal vehicles (cars, SUVs, trucks, motorcycles, etc.).
  - Final assembly must occur in the United States.
- **Effective Period:** This deduction is available for tax years 2025 through 2028.

# OB3 Individual Provisions

## 529 Plan Enhancements

A 529 plan is a **tax-advantaged savings account** sponsored by states or educational institutions that allows individuals to invest and grow money tax-deferred, with tax-free withdrawals when used for **qualified education expenses** such as college, K–12 schooling, apprenticeship programs, student loan repayment, and even Roth IRA rollovers.

- **K–12 Withdrawal Limit Increased:**
  - Annual withdrawal limit for K–12 education expenses doubled from \$10,000 to \$20,000, starting in 2026.
- **Expanded Definition of Qualified K–12 Expenses:**
  - Now includes:
    - Tuition
    - Curriculum and instructional materials (e.g., books, online courses)
    - Tutoring by licensed or expert instructors
    - Dual-enrollment program fees
    - Standardized test fees (e.g., SAT, ACT)
    - Educational therapies for students with disabilities
    - Homeschooling resources
- **Workforce Training & Continuing Education:**
  - 529 funds can now be used tax-free for:
    - Career training programs registered under the Workforce Innovation and Opportunity Act
    - Tuition, fees, books, supplies, and exam fees for continuing education



# OB3 Individual Provisions

## Trump Accounts

"Trump accounts" are a **new type of savings vehicle**, similar to traditional individual retirement accounts (IRAs), with the following features:

- Allow an annual **non-deductible** cash contribution of up to \$5,000 starting July 4, 2026, indexed for inflation, prior to the year in which the account beneficiary reaches age 18.
- For U.S. citizens born in 2025 through 2028, the federal government will provide the initial \$1,000 contributions to these accounts.
- Employers can contribute up to \$2,500 (indexed for inflation) per employee to the Trump account of an employee or any dependent of such employee, excludible from the employee's income. Is this intended to be an annual limitation?
- Funds must be invested in broad index-tracking funds with no annual fees and an expense ratio under 0.1%.
- No income limits or guidelines for the creation of the account

# OB3 Individual Provisions

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## Trump Accounts

### Distributions:

- Distributions from the account can be made for any reason once the child turns 18.
- Distributions after age 18 follow IRA withdrawal rules - withdrawn contributions are tax-free, but earnings are subject to ordinary income tax rates
- Early withdrawals (before age 59½) are exempt from the 10% penalty if used for:
  - Higher education expenses for the child
  - Disability
  - Domestic abuse
  - Natural disasters
- Additional penalty exceptions:
  - Up to \$10,000 for a new home purchase
  - Up to \$5,000 for expenses related to the birth of a baby



# OB3 Individual Provisions

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## Joint Committee on Taxation Individual Provisions Cost Estimates

Provision	Estimated Cost	Notes
Extension and limited enhancement of reduced rates	-\$2.19 trillion	Permanently extends the reduced individual tax rates from the TCJA
Extension and enhancement of increased standard deduction	-\$1.42 trillion	Permanently extends the doubled standard deduction from the TCJA
No tax on tips (sunset 12/31/28)	-\$31.66 billion	Excludes tips from income, payroll, and self-employment taxes for the specified period.
No tax on overtime (sunset 12/31/28)	-\$89.57 billion	Excludes overtime pay from income and payroll taxes for the specified period.
Permanent and expanded reinstatement of partial deduction for charitable contributions of individuals who do not elect to itemize	-\$73.75 billion	Reinstates and enhances the "above-the-line" deduction for non-itemizers, capped at \$1,000 for single filers and \$2,000 for joint filers.
0.5 percent floor on deduction of contributions made by individuals	+\$63.10 billion	A new provision requiring itemizers' charitable contributions to exceed 0.5% of their AGI to be deductible.
Limitation on individual deductions for certain State and local taxes	+946.20 billion	SALT limitation (factors in increased amount)

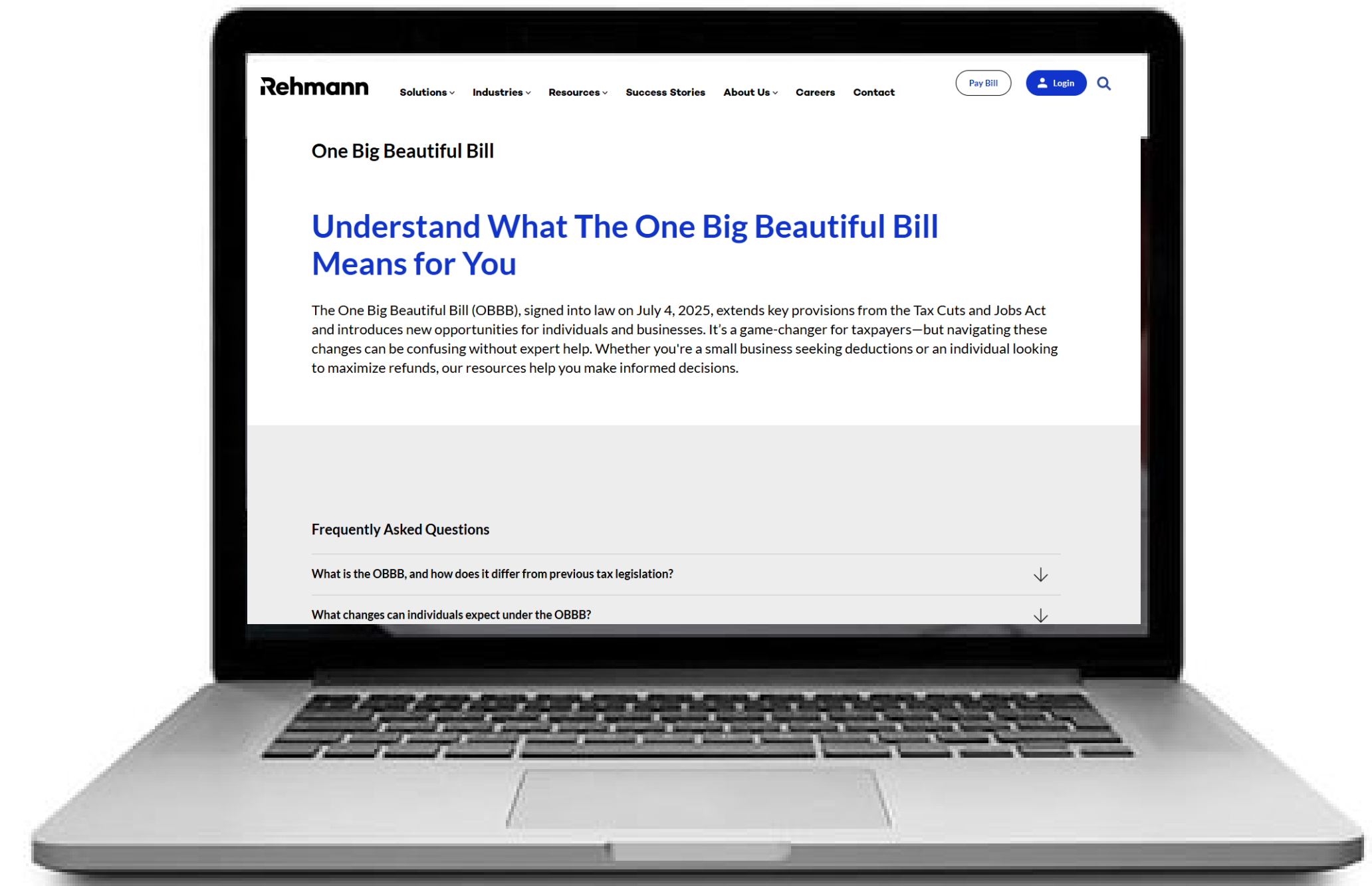
# What's Next

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## Our Advisors Are Ready to Help

Navigating the complexities of the OBBB requires expertise and insight. For anyone affected by the new provisions—whether managing complex personal taxes or corporate filings — our resources are built to support individuals and organizations alike.

Visit [rehmann.com/obbb](https://rehmann.com/obbb) to learn more.







Q & A

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