

The Bankler Report

July 25, 2025

INTRODUCTION

On July 4, 2025 President Trump signed the One Big Beautiful Bill (or OBBB) into law. The following is a brief discussion of the domestic business portion of the new law:

A. Extension and Enhancement of Deduction for Qualified Business Income:

1. Under the Tax Cuts and Jobs Act (TCJA) enacted in 2017, specified non-corporate taxpayers could deduct 20% of qualified business income (QBI) from a partnership, S corporation, or sole proprietorship.
2. The new law now sets the minimum deduction for active QBI at \$400, but also provides that the eligible taxpayer must have a minimum QBI of \$1,000 to claim this deduction. An "active qualified trade or business" means any qualified trade or business of the taxpayer in which the taxpayer "materially participates,"
3. This new law increases the phase-in threshold for single filers from \$50,000 to \$75,000 and the joint filer threshold from \$100,000 to \$150,000. Inflation adjustments apply to the new minimum amounts for tax years beginning after 2026.
4. This section takes effect for tax years beginning after December 31, 2025.

B. Bonus Depreciation Made Permanent at 100%:

1. The TCJA had "bonus" depreciation being reduced down to zero over multiple years.
2. The new law now permanently provides additional first year ("bonus") depreciation at 100%, for qualified property.
3. A limited transitional election is provided to apply the pre-Act phase-down rates instead of 100%.
4. This provision is effective for property acquired after January 19, 2025

C. Increased 179 Expensing Limits - \$2,500,000/\$4,000,000:

1. Internal Revenue Code Section 179 allowed immediate expensing deductions for certain business property.
2. There was an annual limit of \$1,000,000, adjusted for inflation (TCJA current limit was \$1,250,000 for 2025 property). That limit was phased down dollar-for-dollar once property placed in service during the year exceeded a statutory threshold of \$2,500,000, adjusted for

3. inflation (TCJA current threshold was \$3,130,000 for 2025 property).
4. The new law increases the statutory expensing limit to \$2,500,000 and increases the phase-down threshold to \$4,000,000. Both statutory amounts will continue to be subject to future inflation adjustments.
5. This provision is effective for property placed in service in tax years beginning after December 31, 2024.

D. 100% Depreciation Election for Real Property Used for Producing Tangible Personal Property:

1. The new law adds a new Section to the Internal Revenue Code which allows a taxpayer to elect a 100% depreciation deduction for qualified production property (QPP) in the year it is placed in service.
2. Adjusted basis is reduced accordingly.
3. It provides that QPP construction must start between January 20, 2025, and December 31, 2029, and the property must be placed in service in the U.S. (or a U.S. possession) before January 1, 2031.
4. QPP is nonresidential real property used as an integral part of a qualified production activity (QPA). QPP does not include property used for a variety of functions unrelated to QPAs, such as offices for sales or research activities. Additionally, QPP does not include Alternative Depreciation System (ADS) property, or property the taxpayer leases to another person.
5. QPP is subject to an original use requirement, but an exception is allowed if the property (i) was not previously used by the taxpayer, (ii) was not previously used in a QPA by another person, and (iii) was not acquired from a related party or certain non-recognition transactions.
6. A QPA is the manufacturing, production (agricultural and chemical only), or refining of a qualified product. A qualified product is tangible personal property other than food or beverages prepared in the same building as a retail outlet that sells those products.
7. QPP is subject to a 10-year recapture period. If QPP ceases to be used for a QPA, then recapture (basically the same as equipment) is applied as if there had been a disposition of the property.
8. This provision is effective for property placed in service after the date of enactment (July 4, 2025)

E. 1% Floor for Deductions of Corporate Charitable Contributions:

1. Currently, a corporation can deduct charitable contributions. The deduction can't exceed 10% of the corporation's taxable income (as computed without regard to the charitable contribution). Contributions in excess of that limit in any year can be carried forward and deducted over the next five years.
2. The new law now provides that any otherwise allowable charitable contribution by a corporate taxpayer for any tax year (other than certain qualified conservation contributions) will be allowed only to the extent that the aggregate of such contributions exceeds 1% of the taxpayer's taxable income for the tax year.

3. Charitable contributions disallowed either for exceeding the 10% maximum or failing to reach the 1% threshold can be carried forward for five years.

F. Coordination of Business Interest Limitation with Interest Capitalization Provisions:

1. Currently there are limits on the amount of interest a business can deduct, with certain exceptions. Any business interest not allowed as a deduction for any tax year may be carried forward indefinitely. Under current IRS regulations, this limitation applies after the application of provisions that subject interest expense to disallowance, deferral, capitalization or other limitations.
2. The new law now provides that this limitation is calculated prior to the application of any interest capitalization provision.
3. After applying the limitation, any allowable interest is allocated first to amounts that would be capitalized and the remainder, if any, to amounts that would be deducted. Any business interest carried forward is not subject to the interest capitalization provisions.
4. This provision applies to tax years beginning after December 31, 2025

G. Expansion of Qualified Small Business Stock Gain Exclusion:

1. Prior law allowed noncorporate taxpayers that hold qualified small business stock (QSBS) for more than 5 years to potentially exclude all or part of the gain realized on the sale or exchange of that QSBS from gross income. There were numerous limitations on these exclusions.
2. Basically, the exclusion can't exceed the *greater* of: (i) \$10 million (\$5 million for married taxpayers filing separate returns) minus the aggregate amount of eligible gain (gain on the sale or exchange of QSBS held for more than five years) and (ii) ten times the taxpayer's aggregate adjusted basis in QSBS issued by the corporation and disposed of by the taxpayer in the tax year. In addition, the aggregate gross assets of the issuing corporation generally must not have exceeded \$50 million at any point before and immediately after the stock issuance.
3. The new law now allows gain exclusion dependent on the number of years held (50% for stock held for 3 years, 75% for stock held for 4 years, 100% for stock held for 5 years). In addition, the maximum exclusion could reach \$15 million, which will now have an inflation adjustment.
4. The law also increases the size of the corporation from \$50 million to \$75 million in assets, with additional inflation adjustment going forward.

H. Enhancement of Advanced Manufacturing Investment Credit:

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

2. The new law increases the credit to 35% for property placed in service after December 31, 2025.

I. Increased Information Reporting Threshold for Certain Payees:

1. The Law increases the general reporting threshold and the reporting threshold for remuneration to non-employees from \$600 to \$2,000.
2. Beginning in 2027, the general reporting threshold is adjusted annually for inflation.
3. The new law also revises the backup withholding rules to reflect the inflation-adjusted threshold established under a new Code Section.

J. Payments from Partnerships to Partners for Property or Services:

1. Current law provides that the IRS, ***under Regulations issued***, can recharacterize both disguised sales of property to partnerships and direct or indirect allocations and distributions to a partner who provides services or transfers property to a partnership, where the transaction, when viewed together, is properly characterized as a transaction between the partnership and the partner acting other than in his capacity as a partner. In those cases, the allocation and distribution are treated as a transaction between the partnership and an outsider.
2. The new law eliminates the language that the recharacterization must be ***under IRS Regs.***
3. This provision is effective for services performed or property transferred after July 4, 2025.

K. No Tax on Tips:

1. New Code Section which **creates** a new, temporary deduction for individuals who receive qualified cash tips in occupations where tipping was customary before January 1, 2025.
2. The deduction is up to \$25,000 per year per taxpayer. The deduction phases out by \$100 for every \$1,000 of modified adjusted gross income (MAGI) above \$150,000 (or \$300,000 for joint filers).
3. Tips must be properly reported on IRS-approved forms. Tips must be voluntary, not negotiated, and not received in specified service trades or businesses (as defined in QBI, above). For individuals receiving tips through a business they operate (other than as employees), the deduction is allowed only if gross income from the business (including tips) exceeds business-related deductions.
4. Any amount deducted under new Code Section is excluded from the definition of qualified business income, preventing double tax benefits.
5. The current FICA tip credit expanded to include beauty service businesses (barbering, hair care, nail care, esthetics, spa treatments) where tipping is customary, aligning them with food and beverage establishments.

6. Businesses, third-party payers, and platforms must separately report designated cash tips and the recipient's occupation on Forms W-2, 1099, and 1099-K. Employers must report total employee tips and occupations on wage statements.
7. The new tip deduction and related provisions apply to tax years beginning after December 31, 2024. The deduction is temporary and will expire for tax years beginning after December 31, 2028.

This report only discusses specific provisions that we consider to be of general interest to business owners and is not a complete discussion of the One Big Beautiful Bill. Please feel free to contact us with your specific questions.