GattoMcFerson
Certified Public Accountants

September 24, 2025

Dear Friends and Colleagues,

Given the size and complexity of the One Big Beautiful Bill Act, (signed into law on July 4th) we thought it would be helpful to go through the legislation in pieces over the next couple of months. The tax bill affects both individuals and businesses, and there are many moving parts that could significantly impact your 2025 taxes and your related year-end planning.

One Big Beautiful Bill Act – Analysis Part 1

Individual Tax Rates: The 2017 Tax Act lowered tax rates across the board. The top rate decreased from 39.6% to 37%. These lowered tax rates have now been permanently extended. Long-Term Capital Gain tax rates also remain unchanged.

Itemized Deductions – SALT: The state and local tax (SALT) deduction had been capped at $10,000, which, for taxpayers in states like California and New York, was devastating. The deduction has now been increased to $40,000 ($20,000 for married filing separately) for 2025, and $40,400 for 2026. This increase, however, will begin to phase out for taxpayers with Adjusted Gross Income (AGI) of over $500,000. The deduction will revert back to its original $10,000 for taxpayers with AGI over $600,000.

Itemized Deductions - Mortgage Interest: The 2017 Act limited the home mortgage interest deduction to the first $750,000 of debt for any debt borrowed after December 2017. This change has been permanently extended.

Itemized Deductions – Charitable Donations:

- **Additional Deductions for Non-Itemizers** – For those who use the standard deduction, a new limited charitable gift deduction will be available in 2026 - up to $1,000 for single filers and $2,000 for joint filers. This deduction is limited to cash donations only.
- **New 0.5% AGI Floor for Itemizers –** Starting in 2026**, i**f you itemize, only the total of your charitable contributions that exceed 0.5% your AGI will be deductible. For example, if your AGI is $300,000 and you have $4,000 in charitable contributions, the first $1,500 will not be deductible and your charitable deduction will be $2,500. The first $1,500, however, can be carried forward for future use for up to five years.

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Itemized Deductions - Miscellaneous: The 2017 Act eliminated most miscellaneous itemized deductions that exceeded 2% of the taxpayer's Adjusted Gross Income, such as investment/ advisory fees and unreimbursed employee expenses. This change has been permanently extended.

Itemized Deduction Limitation – Upper Tax Brackets: Starting in 2026**, i**f your income is high enough to put you in the top 37% tax bracket, your total itemized deductions (including charitable donations) will be reduced and will only offset taxes at a 35% rate. Basically, a taxpayer in the 37% tax bracket will have their itemized deductions capped at 35%. The reduction is applied after the new 0.5% AGI floor for charitable deductions (mentioned above).

Child Tax Credit: Beginning in 2025, this tax credit has been increased to a maximum of $2,200 per dependent child. AGI phaseouts for this credit are $200,000 for Single taxpayers and $400,000 for those filing Married Filing Jointly.

Los Angeles County Wildfire Victims

As you may recall, the IRS and California have granted filing and payment postponements to Los Angeles County wildfire victims, if needed.

Taxpayers located in Los Angeles County now have until October 15, 2025, to file and pay taxes that normally would have been due between January 7, 2025 and October 15, 2025. This includes, but is not limited to:

- 2024 quarterly estimated income tax payments normally due on January 15, 2025, and 2025 estimated tax payments normally due on April 15, June 16, and September 15, 2025;
- Individual income tax returns and payments normally due on April 15, 2025;
- 2024 contributions to IRAs and health savings accounts for eligible taxpayers;
- Calendar-year partnership and S corporation returns normally due on March 17, 2025;
- Calendar-year corporation and fiduciary returns and payments normally due on April 15, 2025; and
- Calendar-year tax-exempt organization returns normally due on May 15, 2025.

Taxpayers who have an address of record in Los Angeles County will automatically qualify for relief.

Taxpayers who live outside of Los Angeles County but have a tax preparer in Los Angeles County also qualify for this extension.

Pass-Through Entity Tax Payments

For most states, the Pass-Through Entity Payment (PTE) will remain in place, despite the above-mentioned SALT increase.

As we have discussed before, several states, including California, enacted legislation that allows S-Corporations and partnerships to pay state income taxes at the business level via their Pass-Through Entity (PTE) tax return - Form 1120S or Form 1065. This treatment allows state taxes paid at the entity level to be deductible by the shareholder/partner for Federal income tax purposes. This "work-around" was designed to avoid the current $10,000 limitation on the deductibility of state and local taxes for Federal tax purposes.

To take advantage of the PTE Credit for 2025, California required a "down-payment" on this credit.

This amount was calculated one of two ways:

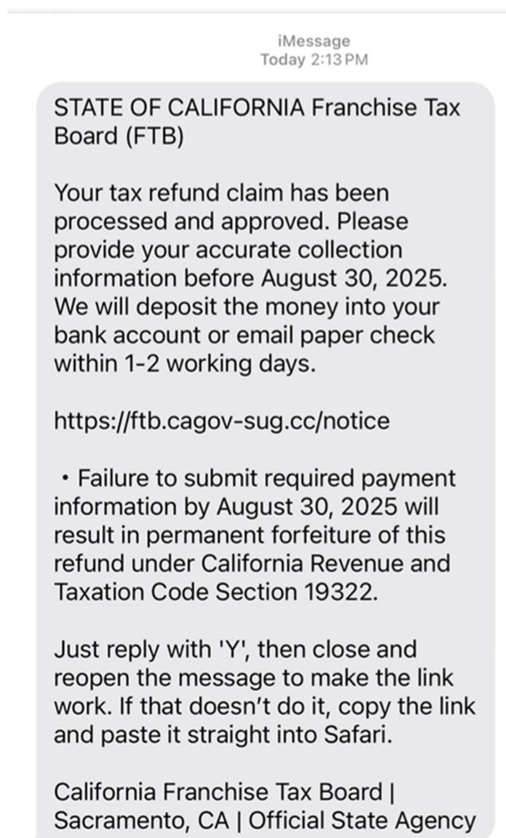
1. If you did not take advantage of the PTE credit for the 2024 tax year, then you are required to pay $1,000 to California before June 16, 2025, with the remaining balance of the 2025 credit payable by December 31, 2025;
2. If you did take advantage of the PTE credit for the 2024 tax year, then you are required to pay at least 50% of the 2024 credit before June 16, 2025, with the remaining balance of the 2025 credit payable by December 31, 2025.

To be eligible for the 2025 PTE credit, you have to pay the greater of these two amounts. There are no exceptions to this requirement.

If you missed the June 15, 2025 deadline, or you believe you paid in an insufficient amount, taxpayers with an address of record in Los Angeles County are allowed until October 15, 2025 to correct this. Taxpayers who live outside of Los Angeles County but have a tax preparer in Los Angeles County also qualify for this extension.

Fraudulent Text Messages from California

The California Franchise Tax Board (FTB) is warning taxpayers to protect themselves from tax scams. Recently, there have been reports of a scam targeting taxpayers through text messages that appear to be from the FTB. These text messages contain a link to a fraudulent version of certain FTB web pages, which are designed to steal personal and banking information. The scam aims to trick taxpayers into providing personal details and credit card information. Here is an example:



Should you have any questions about the above information, or any other tax planning issues, please feel free to reach out by phone or email.

Sincerely,

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