

October 28, 2025

Dear Friends and Colleagues,

As the Dodgers move towards winning their second consecutive World Series, we thought it would be helpful to continue our analysis of the One Big Beautiful Bill Act, (OBBBA), signed into law on July 4th.

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 2

No Tax on Overtime: The new bill allows some workers to claim an above-the-line deduction for certain types of overtime pay. Income eligible for the deduction is capped at \$12,500 (Single) / \$25,000 (Married Filing Jointly).

This deduction begins to phase out when a taxpayer's Adjusted Gross Income (AGI) exceeds \$150,000 for single taxpayers or \$300,000 for married filing jointly.

The deduction is not available for people using the Married Filing Separately status. It also requires that the employer designate overtime wages on the taxpayer's Form W-2.

This overtime deduction becomes available in the 2025 tax year but expires after 2028.

No Tax on Tips: The new bill also allows workers to claim an above-the-line deduction for tip income. Income eligible for the deduction is capped at \$12,500 (Single) / \$25,000 (Married Filing Jointly).

This new deduction only applies to tips received by workers in industries where tipping is customary (restaurants, for instance). It does not apply to tips earned in a specific service trade or business (a law firm, for instance).

This deduction begins to phase out when a taxpayer's AGI exceeds \$150,000 for single taxpayers or \$300,000 for married filing jointly.

The deduction is not available for people using the Married Filing Separately status. This tip deduction becomes available in the 2025 tax year but expires after 2028.

Car Loan Interest Deduction: The new bill allows a deduction of up to \$10,000 on qualified interest expense paid on a car loan. This deduction begins to phase out when a taxpayer's AGI exceeds \$100,000 for single taxpayers or \$200,000 for married filing jointly.

To qualify, the automobile must have "final" assembly in the United States.

Clean Vehicle Credits Repealed: Effective September 30, 2025, the new bill terminated the following clean vehicle credits for vehicles acquired after September 30, 2025:

- New Clean Vehicle Credit
- Used Clean Vehicle Credit
- Qualified Commercial Clean Vehicle Credit (for businesses)

Residential Energy Credits Repealed: The new bill effectively terminates energy-efficient home improvements after the 2025 tax year. This includes the Energy Efficiency Home Improvement Credit and the Residential Clean Energy Credit.

This credit, as it stood, allowed you to claim 30% of your qualified solar installation costs as a credit, a dollar-for-dollar reduction of the federal income tax you owe.

To qualify for this credit before its expiration, the improvements need to be completed and placed in service by December 31, 2025.

No More Paper Checks - The IRS began phasing out the use of paper checks for refunds to individual taxpayers at the end of September. This follows Executive Order 14247, which directed the Treasury to move to electronic disbursements for tax refunds and social security benefits.

According to the IRS, eliminating paper checks will be safer, quicker to process, and less expensive over the long run.

Student Loan Payment Exclusion – The new bill left in place Section 2206 of the original CARES Act, which allowed a portion of student loan payments made to an employee to be excluded from income. Whether those payments are made directly to the employee or the lender, they are tax-free.

The income exclusion is up to \$5,250 per year per employee. This new provision benefits both the employee and employer.

Disaster-Related Personal Casualty Losses – The bill extends the Federal Disaster Relief Act of 2023 to cover disasters declared within 60 days of the bill’s signing, July 4, 2025.

What this means is the qualified disaster loss no longer has to exceed 10% of your AGI, like typical casualty losses do. It also means that you can claim the disaster loss as an additional standard deduction instead of as an itemized deduction.

1099-NEC and 1099-MISC Reporting Threshold – Effective in 2026 and beyond, employers and vendors will now be required to send Form 1099-MISC or 1099-NEC only if the dollar amount paid exceeds \$2,000. This is a substantial increase from the prior amount of \$600. The threshold will be annually adjusted for inflation.

529 Plans – What is considered a qualified expense under these 529 plans has been expanded. Certain non-tuition expenses for elementary, secondary, religious and private school expenses are now allowed, as are expenses for acquiring and maintaining professional credentials. Also, beginning in 2026, up to \$20,000 of elementary or secondary tuition can be used from your 529 Plan (up from \$10,000 in 2025).

Pass-Through Entity Tax Payments

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

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 were 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 were 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 had to pay the greater of these two amounts. There are no exceptions to this requirement.

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Los Angeles County Wildfire Victims

Tax deadlines for taxpayers located in Los Angeles County will revert back to the typical due dates for payments and filings.

The 4th quarter estimated tax payment for 2025 is due January 15, 2026.

The Internal Revenue Service and Franchise Tax Board have been mistakenly sending penalty and payment-due letters to certain taxpayers. Both agencies realize the mistake and will correct the error if you contact them.

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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