Diving into the One Big Beautiful Bill for 2025 and Beyond

Southern California Veterinary Medical Association
Webinar
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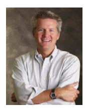
Tom A. McFerson, CPA, ABV



- Mr. McFerson is the primary shareholder at Gatto McFerson, CPAs, a veterinary-focused financial and consulting firm located in Los Angeles, California.
- He is accredited in business valuations by the American Institute of Certified Public Accountants, and is a former director and active member of Vet Partners.
- Grew up in Fresno, California.
- Graduated from Loyola Marymount University in Los Angeles, California.
- Outside of work, Tom plays a lot of tennis, is an active dad with his three kids, and loves to travel with his wife and family, which includes two lovable labs.

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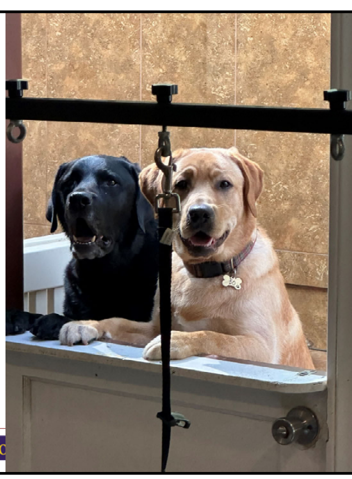

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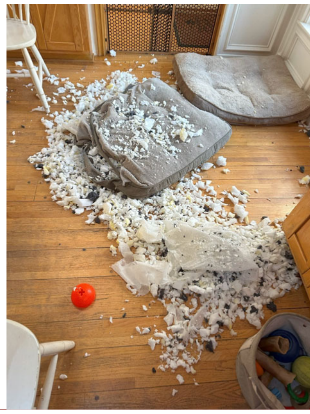

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Before we get into taxes…

Due Dates Back to Normal

General Economy

Veterinary Economy

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Due Dates

For Los Angeles County residents or those with tax preparers located in Los Angeles County, most payment and filing deadlines were extended to October 15, 2025. The deadlines going forward have reverted back to their normal schedule.

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Due Dates

- Form 1040 Due Date: April 15, 2026. Extended Due Date: October 15, 2026
- Form 1120S (S Corporation) Due Date: March 16, 2026. Extended Due Date: September 15, 2026
- Form 1065 (Partnership/LLC) Due Date: March 16, 2026. Extended Due Date: September 15, 2026

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Due Dates

- Form 1041 (Estates and Trusts) Due Date: April 15, 2026. Extended Due Date: September 30, 2026
- Form 1120 (C Corporation) Due Date: April 15, 2026. Extended Due Date: October 15, 2026
- Pass-Through Entity Tax Balance – No later than December 31, 2025

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Due Dates

- 2025 Individual Quarterly Estimated Tax Due Dates:
  Fourth Quarter – January 15, 2026
- 2026 Individual Quarterly Estimated Tax Due Dates:
  First Quarter – April 15, 2026
  Second Quarter – June 15, 2026
  Third Quarter – September 15, 2026
  Fourth Quarter – January 15, 2027

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2025 General Economy in a Nutshell

- Unemployment is Increasing
- Interest Rates are Coming Down
- Consumer Spending is Mixed
- Home Values are Flat
- Stock Market is Up
- Inflation is Mixed

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2026 General Economy?

- Tariffs?
- Inflation?
- New Tax Plan?
- Interest Rates?
- Labor Market?
- Stock Market?

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Veterinary Economy in a Nutshell

- Pet Ownership is Up
- Demand for Service is Selective
- Consumer Spending is Sideways
- Profitability is Down
- Practice Value is Flat
- Availability of Labor is Down
- Consolidators are Wobbling

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Veterinary Labor Market

- Incredibly High Demand
- Shortage of Candidates
- Salaries Rising
- Benefits Increasing
- Consolidators Tipping Scales
- Flexible Schedules
- Competitive

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Taxes

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One Big Beautiful Bill Act

- Made permanent most of 2017 tax bill provisions:
  - Tax Rates/Thresholds
  - Capital Gain Rates
  - Standard Deduction

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Sunsetting Tax Laws

Back in 2017, the Tax Cuts and Jobs Act was passed, resulting in some significant individual and business tax law changes.

Many of these changes were set to expire after 2025.

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Sunsetting Tax Laws

Individual tax rates: The 2017 Tax Act lowered tax rates across the board. The top rate decreased from 39.6% to 37%. These tax rates were set to sunset Dec. 31, 2025, with the top tax rate reverting back to 39.6%. These rates all remained intact.

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2025
Single taxpayers

Taxable income over	But not over	Is taxed at
$0	$11,925	10%
$11,926	$48,475	12%
$48,476	$103,350	22%
$103,351	$197,300	24%
$197,301	$250,525	32%
$250,526	$626,350	35%
$626,351		37%

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2025
Married filing jointly

Taxable income over	But not over	Is taxed at
$0	$23,850	10%
$23,851	$96,950	12%
$96,951	$206,700	22%
$206,701	$394,600	24%
$394,601	$501,050	32%
$501,051	$751,600	35%
$751,601		37%

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Tax Law

Keep in Mind…

These taxable income thresholds aren’t all or nothing. You only pay tax at the higher rate on the income that exceeds the corresponding threshold. Marginal.

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Year-End

Given that it now appears rates will remain the same next year, consider pushing income into 2026 and/or accelerating expenses into 2025.

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No Changes to Long-Term Capital Gains/Qualified Dividends

- It appears long-term capital gain rates will remain the same.

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Taxes

No Changes to Long-Term Capital Gains/Qualified Dividends

- Given that the stock market has been up, consider pushing gains into 2026 and/or realizing losses in 2025.
- Also, the rush to close a business sale by the end of the year has been greatly diminished. In fact, if capital gain rates do remain unchanged, then pushing a sale off to early 2026 might be the better play.

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Taxes

State and Local Taxes (SALT)

- State and Local Taxes/Property Taxes – Annual deduction was limited to $10,000;
- This was a very low number for most taxpayers, but especially those who live in states with high tax rates and/or high property values;
- Pressure to remove entirely…or increase the deduction limit.

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Taxes

SALT – Old Law

Example:	
State Income Taxes	\$ 30,000
Real Estate Taxes	\$ 15,000
Total	\$ 45,000
Amount Deductible	\$ 10,000
Amount Lost	\$ 35,000

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Taxes

State and Local Taxes (SALT)

- The deduction has now been increased to $40,000 ($20,000 for married filing separately) for 2025. The deduction will increase 1% a year through 2029, at which point it will revert back to the $10,000 limit in 2030.
- This increase, however, will begin to phase out for taxpayers with Adjusted Gross Income (AGI) of over $500,000. The deduction will be reduced back to its original $10,000 for taxpayers with AGI over $600,000.
- Adjusted Gross Income is Line 11 on your individual tax return – Form 1040

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Taxes

State and Local Taxes (SALT)

- Getting a sense for what your AGI is going to end up at for 2025 is critical. If it's going to fall below the phase out levels mentioned above, then you have the opportunity to take advantage of this increased deduction.
- Total up your likely state income taxes and property taxes for 2025 and see how close to the $40,000 deduction you are. If you're over, then the $40,000 will be the maximum you can deduct this year. If you're under, explore pre-paying your property taxes or state income taxes to get you closer to this $40,000 mark.

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SALT - Keep in Mind…

The limitation on property taxes only relates to your personal residence. It does not apply to any rental property you might own. If you happen to own the commercial building where your veterinary practice operates, there is no limitation on the property taxes that can be paid in a given year.

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Taxes

Mortgage Interest Limitations

No change to this provision. For newly purchased homes (after December 15, 2017), the limit on indebtedness was reduced to $750,000, from prior $1.1 million.

Example:

Mortgage Loan Limitation	$ 750,000
Actual Taxpayer Mortgage	$ 1,200,000
% Deductible	62.50%
Total Interest Paid	$ 48,000
Amount Deductible	$ 30,000
Amount Lost	$ 18,000

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Mortgage Interest Limitations - Keep in Mind…

Taxpayers with a home mortgage in place prior to December 14, 2017 will still be allowed to deduct the interest paid, assuming the loan balance is $1,100,000 or less. For taxpayers with mortgages initiated after this date, the deduction was limited to interest paid on the first $750,000 in loan amount only.

Paying down your mortgage in excess of $750,000 should be a consideration. Factor in loan terms (interest rate, length of loan, pre-payment penalties)

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Taxes

Charitable Deductions

- 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 is in addition to your standard deduction. This deduction is limited to cash donations only (no Goodwill, for example).
- For those who itemize, starting in 2026**,** 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 ($300,000 x 0.5%) will not be deductible and your charitable deduction will be $2,500.

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Charitable Deductions – Keep in Mind

- If you use the standard deduction, consider pushing off any donations into 2026. Donations made in 2025 won't give you any tax benefit, but donations made in 2026 will allow you to take advantage of this new $1,000/$2,000 deduction.
- If you itemize, keep in mind the cost of charitable donations in 2026 versus 2025. Is it worth front loading your donations to get the full deduction?
- The amount and timing of these donations, plus any fluctuations in your income, will need to be considered in this strategy.

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Charitable Deductions – Keep in Mind

Assume AGI of $600,000 in 2026:

	Example # 1	Example #2
Charitable Deductions – 2025	$ 12,000	$ 24,000
Charitable Deductions – 2026	12,000	-0-
Haircut (0.50% of AGI) – 2026	(3,000)	-0-
Actual Total Deduction	$ 21,000	$ 24,000

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Retirement Plan Changes – 2025 and 2026

There were some changes made to the contribution limits for retirement plans, specifically the catch-up provisions for those over 50 years old:

- 401(k) and 403(b) employee contribution limits have been increased to $24,500 for 2026 (up from $23,500 in 2025). The catch-up contribution limit for taxpayers above age 50 will be $8,000 in 2026. The catch-up contribution limit for taxpayers between the age of 60 and 63 will be $12,000.
- SIMPLE IRA contribution limits have been increased to $17,000 in 2026 (up from $16,500 in 2025) and the catch-up contribution limit for taxpayers above age 50 will be $4,000.
- SEP contribution limits have been increased to $72,000 for 2026 (up from $70,000 in 2025).
- IRA contributions have been increased to $7,500 for 2026 (up from $7,000 for 2025). The IRA catch-up contribution limit for those over 50 years old will be $1,100.

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Retirement Plan Changes – 2025 and 2026

- **Starting in 2026, one key change to the catch-up components: If the taxpayer's Social Security Wages exceed $150,000 with the same employer, the catch-up must be made as Roth Contributions.**
- So, as an example, if you are 53 years old, have a W-2 of $200,000, and want to maximize your 401k, your contributions would look like:

401K Contribution:	$24,500
Roth Catch-Up Contribution:	$ 8,000
Total:	$32,500

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Pass-Through Entity Credit

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

Several states, including California, had recently 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 $10,000 (now $40,000) limitation on the deductibility of state and local taxes for Federal tax purposes.

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Pass-Through Entity Credit

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:

- 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;
- 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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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.

For Los Angeles County Wildfires, can choose to take casualty loss in 2024 or 2025.

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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).

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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 <u>only</u> 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.

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Overtime pay received deduction (No Tax on Overtime)

- The new rule will allow certain workers to claim a dollar-for-dollar deduction for a designated amount of overtime pay.
- Income eligible for the deduction is capped at $12,500 (Single) / $25,000 (Married Filing Jointly).
- Income limits apply.
- The deduction is not available for people using the Married Filing Separately status.
- Requires that employers designate overtime wages on the taxpayer's Form W-2.

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Tips received deduction (No Tax on Tips)

- The new law allows for a dollar-for-dollar deduction for a designated amount of tips earned by workers where tipping is customary.
- Income eligible for the deduction is capped at $25,000.
- Income limits apply.
- The deduction is not available for people using the Married Filing Separately status.

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Car Loan Interest Deduction (No tax on car loan interest)

- The deduction is limited to $10,000 of qualified interest.
- Vehicle must have a "final assembly" in the U.S.
- Phased out at 20% for Modified Adjusted Gross Income (MAGI) over $100,000 (Single) / $200,000 (Married Filing Jointly).

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Clean Vehicle Credits repealed (EV tax credits)

- **Effective:** September 30,2025
- The bill permanently eliminates 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)

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Residential energy credits repealed

- The residential energy credits are generally terminated and will not be available for energy-efficient home improvements after 2025. 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.

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Student Loan Payment Exclusion

One piece of legislation that doesn't get much attention is Section 2206 of the CARES Act, which allows employers to make up to $5,250 in tax-free annual payments directly to their employees or their employees' federal student loans.

These payments represent the best of both worlds. Employees don't pay tax on this added "income," and employers can still deduct these payments while not paying additional payroll taxes on these funds.

The provision has been extended beyond December 31, 2025.

Nice recruiting tool for attracting and retaining employees.

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Section 179/Bonus Depreciation – New Equipment/Assets

- Still one of the best tax planning tools for small businesses.
- Veterinary practices can write-off the cost of qualifying new equipment (digital x-ray or computers, for example) placed in service, up to $1,160,000 in a given year.
- Bonus Depreciation allows practice owners to also write-off longer term assets such as improvements and furnishings.

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Section 179/Bonus Depreciation – New Equipment/Assets

- This provision provides financial assistance to veterinarian looking to improve or expand her/his practice.
- Can finance equipment, get full write-off with very little money spent up front.
- As long as the equipment is signed for and in service by the end of the year, this deduction can be taken.
- Equipment acquired through a capital lease also qualifies.

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ROTH Conversions

Is now the time to convert a traditional IRA to a Roth IRA? You pay tax on the converted amount, but future earnings are tax-free.

Factors to consider:

- Current income/tax rate in 2025. If a low-income year, may be the time to take advantage
- Value of your IRA has gone down
- Current age
- No RMDs for Roth
- Can convert in pieces

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Estate Tax

Estate Tax was not repealed, but the estate and gift tax exclusion amounts were significantly increased.

Estates north of $13.6 million will still have tax implications. Before, it was $5.5 million;

Nothing in this provision changed significantly.

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Sec. 199A - Qualified Business Income (QBI)

Sec. 199A - Qualified Business Income (QBI): Shareholders and owners of passthrough businesses (S Corporations, LLCs) and sole proprietorships, can now claim a deduction of up to 20% of their QBI. This deduction has limitations for services industries, like veterinary medicine.

This provision remains intact.

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What exactly is EBITDA?

Earnings
Before
Interest
Taxes
Depreciation
Amortization

Figures shown as taxable income or net income may be dramatically different from real operating profit

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What exactly is EBITDA?

- Financial/Taxable Income
  - Trying to keep low as possible
  - Includes all expenses, including quasi-business
  - May include excessive depreciation/179
  - May include excessive owner compensation
  - May include excessive owner rent
- EBITDA
  - Good to know for financing purposes
  - Valuation purposes
  - Make adjustments for perks, other non-cash items
  - Good in comparing to rest of industry

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What exactly is EBITDA?

	Taxable Income	EBITDA
Revenue	2,000,000	2,000,000
Less:		
Cost of Prof. Services	410,000	410,000
Payroll	960,000	910,000
Occupancy	170,000	120,000
Administrative Expenses	140,000	140,000
Loan Interest Expense	15,000	-0-
Owner Perks	35,000	-0-
Depreciation Expense	16,000	-0-
Net	$ 254,000	$ 420,000

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Questions?

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