



Comprehensive Client Guide: Major Tax Changes Under Reconciliation Bill H.R.1

*Effective for Tax Years Beginning After December 31,
2024 (Unless Otherwise Noted)*

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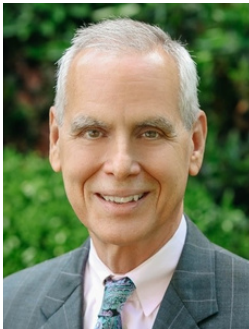
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Introduction

Reconciliation Bill H.R.1 represents the most significant overhaul of the U.S. tax code since 2017, making permanent many provisions of the Tax Cuts and Jobs Act (TCJA), introducing new tax relief for individuals and businesses, and significantly modifying or eliminating a range of energy and other credits.

This guide provides a comprehensive overview of the bill's tax provisions, organized for ease of reference and strategic planning. It is intended for informational purposes only and should not be considered tax or legal advice. For guidance tailored to your specific situation, please contact HHM CPAs.

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Individual Tax Changes

By Kira Wheat, CPA

2.1. Income Tax Rates and Brackets

- Permanency of TCJA Rates (for tax years beginning after December 31, 2025):
 - Permanent TCJA rates: 10%, 12%, 22%, 24%, 32%, 35%, 37%
 - Marriage penalty fix retained
 - Capital gains/qualified dividend breakpoints aligned with new brackets
 - Inflation adjustments updated for certain brackets

2.2. Standard Deduction

- Increased Amounts):
 - \$31,500 [BB1] for joint filers/surviving spouses
 - \$23,625 for heads of household
 - \$15,750 for singles/married filing separately
- Additional Standard Deduction:
 - Continues for age 65+ and/or blindness, indexed for inflation.

2.3. Child Tax Credit & Other Dependent Credits

- Child Tax Credit (CTC):
 - Increased to \$2,200 per qualifying child, indexed for inflation thereafter.
 - Refundable portion remains
- Other Dependent Credit:
 - \$500 per non-child dependent, made permanent (not indexed for inflation).

2.4. State and Local Tax (SALT) Deduction

- Cap Raised:
 - \$40,000 for 2025, increasing slightly through 2029, then reverting to \$10,000 in 2030.
- Phaseout for High Incomes:
 - For MAGI above \$500,000 (2025), the deduction is reduced by 30% of the excess, but never below \$10,000.

2.5. Alternative Minimum Tax (AMT)

- Exemption Amounts:
 - Permanently increased and indexed for inflation.
- Phaseout Thresholds
 - Set at \$500,000 (single/head of household/married filing separately) and \$1,000,000 (joint) for 2026+, adjusted for inflation, with a steeper phaseout rate (50% for higher incomes)

2.6. Deductions and Exemptions

- Personal Exemption:
 - Permanently eliminated, except for a temporary \$6,000 senior deduction (2025–2028), phased out at higher incomes.
- New limitation on itemized deduction:
 - Pease limitation repealed; replaced with 2/37 reduction.
 - Miscellaneous Itemized Deductions: Permanently suspended, except for educator expenses (K-12 teachers, etc.).
- Mortgage Interest:
 - \$750,000 cap on acquisition debt deduction made permanent; certain mortgage insurance premiums treated as qualified interest.
- Moving Expenses:
 - Deduction remains suspended except for active-duty military and intelligence community members.

2.7. New and Enhanced Deductions

- Car Loan Interest:
 - Deduct up to \$10,000/year (2025–2028) for interest on new U.S.-made vehicles and for loans incurred after December 31, 2024, subject to income phaseouts and reporting requirements.
 - Phases out for single filers with MAGI above \$100,000 and \$200,000 for joint filers
- No Tax on Tips and Overtime:
 - Deduct up to \$25,000/year in tips and \$12,500/year in overtime pay (\$25,000 for joint filers) for 2025–2028, subject to phaseouts, reporting, and occupation eligibility. Deduction available to non-itemizers.
 - Tips: Must be properly reported; applies to occupations where tipping was customary before 2025.
 - Income Phaseout: \$150,000 for single filers and \$300,000 for joint filers
 - Overtime: Applies to FLSA-mandated overtime, not regular wages.
- Casualty Losses:
 - Deduction limited to federally or state-declared disasters, made permanent. Non-itemizers can claim disaster losses; \$500 per-casualty floor. Applies to losses in qualified disaster areas after enactment.
- Wagering Losses:
 - Deduction limited to 90% of losses, up to wagering income

2.8. Charitable Contributions (for tax years beginning after December 31, 2025)

- AGI Floor:
 - New 0.5% of AGI floor imposed on charitable deductions.
- 60% AGI Ceiling:
 - 60% ceiling for cash gifts to public charities made permanent.
- Non-Itemizer Deduction:
 - Up to \$1,000 (\$2,000 for joint filers) for cash donations to public charities.

2.9. Education and Family Benefits

2.9.1. 529 Plans

- Expanded Qualified Expenses:
 - Now includes more K-12 expenses (tuition, materials, testing, therapies) and postsecondary credentialing expenses – applies to distributions after enactment date of July 4, 2025.
- Credentialing Expenses:
 - Includes accredited programs, apprenticeships, and industry-recognized credentials.

2.9.2. New Tax-Deferred “Trump Accounts” for Children

- Annual Contribution Limit:
 - \$5,000 per child, indexed for inflation
- Federal Contribution:
 - \$1,000 for each U.S. citizen newborn (2025–2028).
- Eligibility:
 - U.S. citizen children with SSNs; Funds must be invested in diversified mutual funds or ETFs that track a qualified U.S. equity index, with low fees and no leverage.
- Distribution Rules:
 - No withdrawals until age 18, with certain exceptions.

2.9.3. Child and Dependent Care Credit

- Credit Rate:
 - Increased to 50%, phased down for higher incomes for tax years beginning after December 31, 2025.
- Qualifying Expenses:
 - Up to \$3,000 (one dependent) or \$6,000 (two or more), with increased AGI phaseouts.
- Employer-Provided Child Care Credit:
 - Enhanced for businesses (see Payroll section).

2.9.4. Adoption Credit

- Refundable Portion:
 - Up to \$5,000 is refundable, indexed for inflation, with no carryforward for the refundable part.

2.10. Healthcare and Premium Tax Credit (PTC) Changes

- Repayment Cap Eliminated:
 - All taxpayers must repay excess advance PTC payments in full for tax years after December 31, 2025.
- PTC Eligibility for Aliens:
 - Stricter eligibility for lawfully present aliens; only “eligible aliens” (green card holders, certain others) qualify for tax years after December 31, 2026.
- Verification Requirements:
 - Exchanges must verify applicant eligibility for QHP enrollment and advance PTC payments for tax years after December 31, 2027.

2.11. Miscellaneous Individual Provisions

- Excise Tax on Remittance Transfers:
 - 1% excise tax on certain international remittance transfers, with exceptions for U.S. financial institutions and cards as well as anti-abuse rules
- ABLE Accounts:
 - Permanently extends higher ABLE contribution limits and allows contributions to qualify for the Saver’s Credit
- Bicycle Commuting Reimbursement:
 - Exclusion permanently eliminated

2.12. Other Credits

- Credit for Contributions to Scholarship-Granting Organizations
 - Taxpayers may claim a nonrefundable federal credit of up to \$1,700 for donations to qualified Scholarship Granting Organizations (SGOs) operating in states that opt in for tax years ending after December 31, 2026.
- Education Credits
 - SSN and EIN required for American Opportunity or Lifetime Learning Credits
 - Applies to tax years beginning after December 31, 2025



Business Tax Changes

By Brian Baker, CPA

3.1. Qualified Business Income (QBI) Deduction

- 20% QBI Deduction:
 - Made permanent for eligible non-corporate taxpayers.
- Minimum Deduction:
 - \$400 minimum for active QBI; must have at least \$1,000 QBI to qualify. Applies to tax years beginning after December 31, 2025
- Phase-in Thresholds:
 - Increased to \$75,000 (single) and \$150,000 (joint), indexed for inflation. Applies to tax years beginning after December 31, 2025

3.2. Expensing and Depreciation

- Bonus Depreciation:
 - 100% expensing for qualifying property is made permanent for property acquired after Jan. 19, 2025.
- Section 179 Expensing:
 - Limit increased to \$2.5 million, with a \$4 million phase-out threshold, both indexed for inflation.
 - 100% Depreciation for Production Property:
 - An election is available to expense 100% of the cost of certain facilities used for manufacturing, agricultural or chemical production, or refining. Eligibility subject to numerous statutory requirements. .

3.3. Charitable Contribution

- Corporate Deductions:
 - For tax years beginning after December 31, 2025, contributions must exceed 1% of taxable income in order to be deductible. The deduction is still limited 10% of taxable income and subject to a five-year carryover period for any excess..
- Exclusions:
 - Certain qualified conservation contributions are excluded from the 1% floor.

3.4. Reporting and Compliance

- 1099 Thresholds:
 - Reporting threshold for Forms 1099-MISC and 1099-NEC for payments made after December 31, 2025, increased from \$600 to \$2,000, indexed for inflation starting in 2027.
- 1099-K De Minimis Exception:
 - Reverts to \$20,000 (from \$600) and 200 transactions per year.

- Backup Withholding:
 - Aligned with new reporting thresholds.
- Form W-2, 1099, and 1099-K:
 - Enhanced requirements for reporting tips, overtime, and occupation.

3.5. Section 174 – Research & Experimental (R&E) Expenditures

- Immediate Deduction for Domestic R&E
 - Businesses may immediately deduct domestic research or experimental expenditures, reversing the prior requirement to capitalize and amortize these costs over five years.
- Foreign R&E:
 - Expenditures for research conducted outside the U.S. must still be capitalized and amortized over 15 years.
- Retroactive and Transition Rules:
 - Small businesses (average annual gross receipts $\leq$ \$31 million) may apply immediate expensing retroactively to tax years beginning after December 31, 2021.
 - All taxpayers may elect to accelerate remaining deductions for domestic R&E incurred from 2022–2024 over one or two years. Election must be made in the first tax year beginning after December 31, 2024.

3.6. Section 163 – Limitation on Business interest

- EBITDA Limitation Reinstated:
 - The business interest deduction limitation is based on adjusted taxable income (ATI) calculated without regard to depreciation, amortization, or depletion (i.e., EBITDA). This generally increases the allowable deduction compared to the prior EBIT-based limitation.
- Ordering Rule:
 - The Section 163(j) limitation must be applied before any interest capitalization provisions, clarifying the sequence for compliance and planning.
- Expanded Floor Plan Financing:
 - The definition of “motor vehicle” is expanded to allow interest on floor plan financing for certain trailers and campers to be deductible.

3.7. Other Business Provisions

- Qualified Small Business Stock (QSBS):
 - A tiered gain exclusion was introduced, based on the holding period. A 50% exclusion is available for QSBS held at least three years but less than four, a 75% exclusion is available for QSBS held at least four years but less than five, and a 100% exclusion for QSBS held at least five years. The per-issuer cap on excludable gain has also been raised from \$10 million to \$15 million for QSBS acquired after July 4, 2025 with no changes to the alternative cap of 10 times the taxpayer’s basis in the stock. The threshold for a corporation’s aggregate gross assets at the time of QSBS issuance has increased from \$50 million to \$75 million.

- Advanced Manufacturing Investment Credit:
 - Increased from 25% to 35% for certain property placed in service after 2025. Updates also include making metallurgical coal suitable for use in the production of steel as an applicable mineral, and adding a 2.5% credit for this mineral.
- Paid Family and Medical Leave Credit:
 - Made permanent, with new options for credit based on insurance premiums paid (originally it was based on only wages paid to qualifying employees). Qualifying employees can also now include those employed for at least 6 months.
- New Market Tax Credit
 - Made permanent, with the carry forward limited to five years – any historical carryovers will be treated as occurring in calendar year 2025 – this section applies to tax years beginning after December 31, 2025.
- Opportunity Zone (QOZ) Program
 - Made permanent, with a narrowed definition of “low-income community”. Effective July 1, 2026, States will designate new qualified opportunity zone census tracts, and this will repeat every 10 years. The new QOZ designations will become effective January 1, 2027. Other modifications were also implemented.
- Qualified Rural Opportunity Funds (QROF)
 - Introduced as a new category of fund that provides investors with more generous tax benefits compared to the QOZ program including a rolling 30% basis step-up after five years and a reduced “substantial improvement” requirement which applies to tax year 2025.
- Business Meals:
 - Additional exceptions for certain industries related to fishing in a defined region north of the 50-degree latitude line and not in a metropolitan statistical area.



Payroll and Employer Provisions

By Chelsea O'Shields, CPA

4.1. Tips and Overtime

- No Tax on Tips and Overtime:
 - Previously discussed in Section 2.7
- Employer FICA Tip Credit:
 - Expanded to include beauty service businesses (barbering, hair care, nail care, esthetics, spa treatments) where tipping is customary.
- Reporting Requirements:
 - Enhanced reporting of tips and overtime on wage statements and information returns. IRS to publish list of eligible occupations and update withholding procedures.

4.2. Employer Credits and Exclusions

- Paid Family and Medical Leave Credit:
 - Made permanent, with expanded eligibility and calculation methods. Employers can choose a credit based on insurance premiums or wages paid.
- Employer Provider Child Care Credit:
 - Increased to 40% for regular businesses and 50% for eligible small businesses. Credit limits raised to \$500,000 and \$600,000 respectively, with annual inflation adjustments. Expanded eligibility for third-party arrangements and jointly operated facilities.
- Student Loan Repayment Exclusion:
 - Made permanent, with inflation adjustments beginning in 2027.

4.3. Dependent and Child Care Assistance

- Dependent Care Assistance:
 - Contribution limit increased to \$7,500 annually (\$3,750 for married filing separately), effective for tax years beginning after December 31, 2025.
- Child and Dependent Care Credit:
 - See Individual section for details; increased rates and phaseouts.

4.4. Other Payroll Provisions

- Enforcement of COVID-Related Employee Retention Credits:
 - New penalties for promoters, extended assessment periods, and expanded penalty coverage for erroneous refund claims.

Estate and Gift Tax Changes

By Chelsea O'Shields, CPA

5. Estate and Gift Tax Changes

- Exclusion Amount:
 - Increased to \$15 million, indexed for inflation, effective for estates of decedents dying and gifts made after December 31, 2025.



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Energy and Clean Vehicle Credits and Deductions

By Lee Ferguson, CPA

- **Accelerated Termination of Credits:**

- Clean Vehicle Credits: Terminates for vehicles acquired after September 30, 2025.
- Residential [LF1] Energy Credits: Credits for energy-efficient home improvements, and residential clean energy sunset by the end of 2025 or June 2026. Energy Efficient Commercial Buildings Deduction: Terminated for property for which construction begins after June 30, 2026.
- Advanced Manufacturing Production Credit: Wind energy and critical mineral credits are phased out, with new U.S. content and anti-foreign entity rules.
- Alternative Fuel Vehicle Refueling Property Credit: Ends for property placed in service after June 30, 2026. New Energy Efficient Home Credit: Ends for construction or acquisition beginning after June 30, 2026.
- Energy investment tax credit: expiration of the investment tax credit for wind and solar property. No credit for property where construction begins 7/4/2026 or placed in service after 12/31/2027.



Reporting, Compliance, and Enforcement

- Information Reporting Thresholds:
 - Increased for 1099s and 1099-Ks; backup withholding aligned with new thresholds.
- Penalties and Enforcement:
 - New penalties for COVID-ERTC promoters and expanded IRS enforcement powers.
- Verification for Health Credits:
 - Stricter verification for PTC eligibility and coverage months.
- Remittance Transfers:
 - 1% excise tax on certain international remittance transfers, with exceptions and anti-avoidance rules



Planning Steps and Recommendations

- Review Withholding and Estimated Taxes:
 - Adjust for new rates, deductions, and credits.
- Plan for Expiring Energy Credits:
 - Take advantage of clean energy and vehicle credits before they sunset.
- Update Payroll and HR Systems:
 - Ensure compliance with new reporting, deduction, and credit rules.
- Maximize New Deductions:
 - Consider timing purchases and contributions to leverage new or enhanced deductions and credits.
- Consult with Our Office:
 - These changes are complex and may affect each client differently. Schedule a review to discuss personalized strategies and compliance requirements.



Appendix: Tables and Reference Summaries

Major Individual Credits and Deductions

Provision	Effective Date	Key Details/Thresholds
Tax Rates & Brackets	After 12/31/2025	10%, 12%, 22%, 24%, 32%, 35%, 37%; permanent
Standard Deduction	After 12/31/2024	\$31,500(MFJ), \$23,625(HoH), \$15,750(Single/MFS), indexed
Child Tax Credit	After 12/31/2024	\$2,200/child, indexed; refundable portion retained
SALT Deduction Cap	After 12/31/2024	\$40,000 (2025), phaseouts, reverts to \$10,000 in 2030
Estate/Gift Exclusion	After 12/31/2025	\$15 million, indexed
Car Loan Interest Deduction	2025–2028	Up to \$10,000/year, new U.S.-made vehicles, phaseouts
Child/Dependent Care Credit	After 12/31/2025	Up to 50% rate, phaseouts
Non-Itemizer Charitable Deduction	After 12/31/2025	Up to \$1,000 (\$2,000 MFJ)
Adoption Credit	After 12/31/2024	Up to \$5,000 refundable
Trump Accounts	After 12/31/2024	\$5,000/year contribution limit, \$1,000 federal
No tax on tips	After 12/31/2024	\$25,000 limit, phaseouts
No tax on overtime	After 12/31/2024	\$12,500 limit, phaseouts

Appendix: Tables and Reference Summaries

Major Business Credits and Deductions

Provision	Effective Date	Key Details/Thresholds
Section 174 Expensing	After 12/31/2024	Immediate expensing restored
QBI Deduction	After 12/31/2025	Deduction made permanent with higher thresholds
Bonus Depreciation	After 1/19/2025	100% deduction made permanent
Section 179 Expensing	After 12/31/2024	\$2,500,000 deduction limit with higher phaseout, indexed
1099-MISC/NEC	After 12/31/2025	\$2,000 reporting threshold, indexed

Clean Energy Incentives

Provision	Effective Date	Key Details/Thresholds
Clean Energy Credits	After 2025/2026	Most credits sunset/terminate
Advanced Manufacturing Credit	After 12/31/2025	Increased to 35%



CERTIFIED PUBLIC ACCOUNTANTS

This guide is for informational purposes only and does not constitute tax or legal advice. Please contact our office for advice tailored to your specific circumstances.

Prepared by HHM CPAs, July 2025
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