

## 2025 Year-End Federal Tax Update – Study Guide

### Part 1 - OB3: Federal Tax Law Updates and Adjustments for Individuals and Businesses

[Part 1](#) covers the major federal tax changes taking effect for 2025–2026 under the One Big Beautiful Bill Act (OB3), along with IRS administrative updates and planning notes.

#### 1. Individual Tax Changes

- **TCJA tax brackets** permanently extended (10%–37%).
- Standard deduction **increases** in 2025 (\$31,500 MFJ; \$23,625 HOH; \$15,750 Single/MFS).
- Child Tax Credit **increased** to \$2,200 with refundable amounts indexed.
- **QBI §199A deduction** made permanent; new \$400 minimum deduction; phaseouts raised to \$75k/\$150k MFJ.
- **Estate exemption resets** to a \$15M base in 2026, indexed thereafter.
- **Mortgage interest** and casualty loss restrictions made permanent.
- **SALT cap** temporarily **increased** to \$40k in 2025; returns to \$10k after 2029.
- **Trump Accounts created** for children ages 0–17 with federal seeding and LTCG treatment.

#### 2. Business Tax Changes

- **100% Bonus Depreciation** *permanently* reinstated after Jan. 19, 2025.
- **R&E §174** full expensing allowed beginning 2025, retroactive election for small businesses.
- **§163(j) interest limitation** rules made permanent.
- **§179** **increased** to \$2.5M with phaseout at \$4M.
- Special depreciation for **qualified production property** (QPP) through 2031.
- **QSBS exclusion cap** **raised** to \$15M with tiered percentages based on holding period.
- **Excess Business Loss limitation** made permanent.

#### 3. IRS/Compliance Updates

- **1099-K threshold** **reverts** to \$20k/200 transactions.
- **1099-MISC/NEC threshold** **raised** to \$2,000 starting 2026.
- **ERC enforcement tightened**; new penalties and extended 6-year statute.
- **Direct File suspended** pending redesign.
- Simple payment plans available for ≤\$50,000 balances.
- Federal paper checks **eliminated** after September 30, 2025.
- PTIN fee **reduced** to \$18.75.

#### 4. Health & Retirement

- **HSAs** **expanded** starting 2026; new limits \$4,400 self-only and \$8,750 family.
- 2025 retirement contribution limits **updated** (IRAs, SIMPLE, 401(k)).

**NOTES**


## Part 2 - Form 706, Portability, and Retirement Planning

[Part 2](#) focuses on how OB3 reshapes retirement and estate planning through MAGI-based phase-outs, RMD timing considerations, Roth strategy, and DSUE filing issues.

### 1. Core Technical Rules

- **MAGI** governs contribution eligibility, Roth planning, and deduction phase-outs.
- **Retirement contribution limits rise beginning 2025** across IRA, SIMPLE, and 401(k).
- RMD timing interacts with MAGI, **affecting below-the-line OB3 deductions**.
- DSUE election **remains essential** with estate exemption dropping to ~\$15M in 2026.
- Roth ordering rules and conversion timing **determine** income inclusion.
- Annual exclusion gifting and lifetime exemption planning **shift ahead of 2026 reset**.

### 2. Planning Implications

- Forecast MAGI **before** Roth conversions or large withdrawals.
- Encourage DSUE filings **even for non-taxable estates**.
- Coordinate RMDs **with multi-year income planning**.
- Pair gifting strategies with anticipated **2026 exemption drop**.
- Manage QCD timing, Roth conversions, and capital gains to **stabilize** MAGI.

### 3. IRS / Compliance Considerations

- DSUE filings **must** include complete asset schedules.
- Incorrect Roth distribution sequencing **triggers** taxable income.
- RMD **errors** remain a frequent IRS penalty source.
- Estate filings **must** reconcile prior gifts to compute unified credit.
- MAGI documentation **required** when relying on OB3 deduction eligibility.

### 4. Practitioner Notes / Risk Areas

- Missed DSUE elections create major post-2026 estate **tax exposure**.
- Clients confuse AGI and MAGI, causing eligibility mistakes.
- Roth over-contributions tied to MAGI **spikes** are common.
- **Poor withdrawal sequencing** increases phase-out cliffs.
- RMD management **requires** early-year review to avoid penalties.

### NOTES


## Part 3 - QBI Deduction, Business Strategies, and Depreciation Updates

[Part 3](#) covers QBI under OB3, threshold changes, SSTB pressures, and entity-level planning needed to preserve the deduction.

### 1. Core Technical Rules

- QBI deduction permanent; new **\$400 minimum applies** when QBI ≥ \$1,000.
- Phase-out thresholds **rise** to \$75k/\$150k MFJ beginning 2026.
- SSTB boundaries unchanged but **create** more scrutiny for high-income filers.
- W-2 wages and UBIA **remain** decisive factors for QBI limitation tests.
- Aggregation rules **preserved** for multi-entity operations.

### 2. Planning Implications

- Entity choice influences wages, QBI limits, and overall deduction allowed.
- Payroll adjustments near year-end **protect** partial QBI benefits.
- Aggregation helps balance wage/UBIA gaps across related entities.
- SSTB segmentation **may help avoid** adverse phase-out results.
- MAGI management **becomes essential** for clients nearing threshold cliffs.

### 3. IRS / Compliance Considerations

- SSTB classification challenges **will increase** post-OB3.
- W-2 reporting **mismatches** frequently undermine QBI claims.
- Aggregation elections **require** comprehensive documentation.
- UBIA errors tied to cost basis misreporting trigger corrections.
- QBI worksheets **updated** for OB3-driven threshold changes.

### 4. Practitioner Notes / Risk Areas

- Incorrect SSTB classification **is a top audit trigger**.
- Wage misalignment **leads** to deduction loss.
- MAGI volatility **causes** sudden QBI elimination.
- Inaccurate UBIA reporting **creates** IRS correspondence.
- Multi-entity taxpayers routinely overlook aggregation opportunities.

### NOTES


## Part 4 - AI & Automation Best Practices

[Part 4](#) explains AI fundamentals and how they apply to practitioner workflows, emphasizing compliance, documentation, and risk control.

### 1. Core Technical Rules

- AI categories: machine learning, deep learning, and LLM-based generative models.
- LLMs *produce* patterns, summaries, and draft content but lack guaranteed accuracy.
- IRS **requires** human verification for all AI-assisted representations.
- Circular 230 governs AI output used in tax preparation and advisory roles.

### 2. Planning Implications

- AI accelerates research, summarization, data extraction, and review tasks.
- Firms **benefit** from automating routine workflows with human final review.
- AI supports client communication, pattern detection, and multi-year analyses.
- Document automation reduces administrative time but **requires quality control**.

### 3. IRS / Compliance Considerations

- AI errors do not protect practitioners from accuracy-related penalties.
- All AI-generated output **must** reflect verifiable facts and correct law.
- Circular 230 standards **require** maintaining evidence of human review.
- AI hallucinations and incorrect citations must be corrected before filing.

### 4. Practitioner Notes / Risk Areas

- Over-reliance on AI **creates** compliance exposure.
- Lack of documentation undermines defensibility in exams.
- Models may misinterpret MAGI-sensitive rules **without precise input**.
- Human judgment **must** validate all AI-driven recommendations.
- Staff training needed to prevent improper delegation to AI.

### NOTES


## Part 5 - Preparing for the 2026 Filing Season: Using Schedule 1-A

[Part 5](#) introduces Schedule 1-A, the new below-the-line deduction form for 2025–2028 under OB3, detailing senior, tip, and overtime deductions.

### 1. Core Technical Rules

- Schedule 1-A **reduces** taxable income only; AGI remains unchanged.
- MAGI **includes** AGI plus §§911, 931, 933 excluded income.
- Senior deduction: \$6,000 per qualifying taxpayer age 65+; phased out beginning at \$75k/\$150k MFJ.
- Tip deduction: **capped** at \$25,000; requires employer statement; MFS not eligible.
- Overtime deduction tracked separately with **new W-2 coding** (TT).
- New W-2 codes: TA (Trump Account), TP (qualified tips), TT (qualified overtime).

### 2. Planning Implications

- AGI vs taxable income misunderstanding *will* cause client confusion.
- MAGI miscalculation *will* deny deductions entirely.
- Self-employed tip deduction **limited** to profit from the activity.
- W-2 coding drives eligibility and IRS verification matching.
- Schedule 1-A interacts with OB3 phase-out cliffs.

### 3. IRS / Compliance Considerations

- Withholding tables unchanged for 2025; withholding still applies to tips/overtime.
- Tip deduction must appear on W-2, 1099-NEC, 1099-K, or Form 4137.
- Occupation list under **REG-110032-25** governs eligible tipped roles.
- Missing employer statements *disqualify* taxpayers from deductions.
- Incorrect W-2 codes create mismatch letters and disallowed deductions.

### 4. Practitioner Notes / Risk Areas

- MAGI-based phase-outs easily miscomputed.
- W-2 coding errors *will* be widespread early in implementation.
- Clients assume below-the-line deductions affect AGI - **they do not**.
- Senior deduction confused with standard deduction bump at age 65.
- Tip-sharing arrangements **must** meet IRS-defined criteria.

### NOTES


## Part 6 - Ethics and the OIC

[Part 6](#) reviews Circular 230 duties applied to Offers in Compromise (OIC), emphasizing diligence, documentation, and realistic client expectations.

### 1. Core Technical Rules

- §10.20 *requires* practitioners to furnish records unless privileged.
- §10.22 *mandates* due diligence in preparing and reviewing IRS submissions.
- §10.33 *outlines* best practices: fact development, legal application, client communication, integrity.
- §10.34 *prohibits* unreasonable or unsupported positions on returns.
- OIC allowed for doubt as to liability, doubt as to collectability, or effective tax administration.
- RCP (Reasonable Collection Potential) *determines* eligibility.

### 2. Planning Implications

- Full financial transparency **required** to support OIC.
- Client education needed regarding intrusiveness and duration of process.
- OIC only viable when assets + future income < liability.
- Low-income certification *waives* fees and initial payments.
- Practitioners must outline alternative collection options when OIC fails.

### 3. IRS / Compliance Considerations

- OIC acceptance rate **~25% or lower**.
- IRS reviews lifestyle, spending, and asset equity.
- Bank records **must** match submitted financials.
- Submitting frivolous or delaying documents **violates** §10.34.
- Compliance failures (unfiled returns, missed payments) disqualify applicants.

### 4. Practitioner Notes / Risk Areas

- Missing documentation **is** the #1 cause of OIC rejection.
- Practitioners must avoid overpromising acceptance likelihood.
- Incorrect asset values or hidden income **creates** practitioner exposure.
- Communication *failures* lead to client mistrust regarding timelines.
- Clients **must** maintain full compliance throughout the OIC review.

## NOTES


## Part 7 - Summary & Ask the Expert

[Part 7](#) summarizes all OB3 and year-end topics, highlighting practitioner risk areas and client misconceptions.

### 1. Core Technical Rules

- OB3 governs deductions and structural rules for 2025–2028.
- MAGI *is* the single most important eligibility driver.
- Senior, tip, and overtime deductions impact taxable income only.
- W-2 and IRS form *updates* require new coding.
- QBI thresholds shift under OB3.
- Many OB3 provisions sunset after 2028.

### 2. Planning Implications

- Multi-year MAGI forecasting *required* to capture deductions.
- Coordination of QBI, retirement strategy, and Schedule 1-A essential.
- Filing-status traps (MFS prohibited benefits) *must* be reviewed.
- Planning *must* anticipate post-2028 reversion.

### 3. IRS / Compliance Considerations

- Incorrect W-2 coding causes mismatch notices.
- Tip/overtime misclassification *creates* exam triggers.
- MAGI errors commonly produce disallowed deductions.
- OIC documentation weaknesses remain high-risk.
- AI-assisted work *must* show documented human review.

### 4. Practitioner Notes / Risk Areas

- Clients misunderstand AGI vs taxable income and MAGI add-backs.
- AI hallucinations create citation and numeric errors.
- Practitioner judgment is essential despite automation.
- Documentation is the best protection as IRS automation increases.
- Early-year conversations reduce client confusion on OB3.

### NOTES


## Appendix

### Appendix A: Detailed OB3 Bill Summary

This [appendix](#) provides a more granular look at the provisions of the One Big Beautiful Bill (OB3), as outlined in the seminar materials.

#### Individual Income Tax Provisions

- **§ 70101:** Permanently extends the TCJA individual income tax rates.
- **§ 70102:** Increases the standard deduction for 2025 and indexes it for inflation thereafter.
- **§ 70103:** Terminates the deduction for personal exemptions but adds a new **\$6,000 senior deduction** for individuals 65 and older.
- **§ 70104:** Permanently increases the child tax credit base amount to **\$2,200** and makes the **\$500 credit** for other dependents permanent.
- **§ 70107:** Permanently extends the increased AMT exemption amounts and modifies the phaseout thresholds.
- **§ 70108:** Makes the **\$750,000 mortgage interest limitation** permanent.
- **§ 70109:** Makes the limitation on casualty loss deductions to federally declared disasters permanent and expands it to include certain state-declared disasters.
- **§ 70110:** Permanently terminates miscellaneous itemized deductions, except for unreimbursed educator expenses.
- **§ 70114:** Limits wagering losses for professional gamblers to 90% of winnings, effective for years beginning after 12/31/25.
- **§ 70115, 70116, 70117:** Permanently allows rollovers from **529 plans to ABLE accounts**, increases contribution limits, and expands Saver's Credit eligibility.
- **§ 70119:** Permanently excludes discharged student loans due to death or disability from income.
- **§ 70120:** Temporarily increases the **SALT deduction cap to \$40,000** for 2025-2029, with a phaseout for high-income taxpayers. The permanent cap of **\$10,000** is reinstated in 2030.
- **§ 70201:** Provides a new deduction for "qualified tips" up to **\$25,000**, with a MAGI phaseout, for tax years 2025-2028.
- **§ 70202:** Provides a new deduction for "qualified overtime compensation" up to **\$12,500**, with a MAGI phaseout, for tax years 2025-2028.
- **§ 70203:** Provides a new deduction for car loan interest up to **\$10,000**, with a MAGI phaseout, for tax years 2025-2028.

#### Business Tax Provisions

- **§ 70105:** The **§ 199A QBI deduction** is made permanent.
- **§ 70301:** Permanently reinstates **100% bonus depreciation** for property acquired and placed in service after January 19, 2025.
- **§ 70302:** Allows for the full expensing of domestic **R&E expenditures**. Small businesses may elect to apply this retroactively to 2022.
- **§ 70303:** Makes the **limitation on business interest** permanent.

- **§ 70306:** Increases the **§ 179 expense deduction to \$2,500,000**, with a phase-out beginning at \$4,000,000, adjusted for inflation.
- **§ 70433:** Increases the **Form 1099 reporting threshold** from \$600 to **\$2,000**, effective for payments made after December 31, 2025.

**Other Provisions**

- **§ 70106:** Permanently increases the estate and gift tax exemption to a base of **\$15,000,000** for decedents dying in 2026.
- **§ 70402:** Makes the adoption credit refundable and sets it at **\$5,000** beginning in 2025.
- **§ 70413:** Increases the maximum **529 plan distribution for K-12 tuition to \$20,000**.
- **§ 70414:** Allows **529 plan distributions** for postsecondary credentialing expenses, including CPA and EA exams.
- **§ 70424:** Creates a permanent deduction for charitable contributions for non-itemizers, up to **\$1,000** (or **\$2,000** for MFJ).

**NOTES**


## Appendix B: Detailed Tipped Occupations List

The [handout](#) provides a comprehensive, categorized list of tipped occupations. Here are some examples:

- **Beverage & Food Service:** Bartenders, wait staff, chefs and cooks, dishwashers, host staff.
- **Entertainment & Events:** Gambling dealers, dancers, musicians, disc jockeys, digital content creators.
- **Hospitality & Guest Services:** Baggage porters and bellhops, concierges, hotel desk clerks, maids and housekeeping cleaners.
- **Home Services:** Home maintenance and repair workers, plumbers, electricians, landscapers, home cleaning service workers.
- **Personal Services:** Pet caretakers, nannies and babysitters, private event planners and photographers, tutors.
- **Personal Appearance & Wellness:** Skincare specialists, massage therapists, barbers, hairdressers, manicurists, tattoo artists, tailors.
- **Recreation & Instruction:** Golf caddies, self-enrichment teachers (e.g., piano or art instructors), recreational pilots, tour guides.
- **Transportation & Delivery:** Valet attendants, taxi and rideshare drivers, delivery people, car wash attendants, home movers.

### NOTES


## Appendix C: IRS Guidance on Tip Occupations

The proposed [regulations](#) define which occupations “customarily and regularly” received tips before December 31, 2024, and set the rules for what counts as “qualified tips” eligible for the new OB3 deduction, including limits, exclusions, and documentation requirements. The IRS also publishes a new standardized list of tipped occupations and explains how the \$25,000 deduction cap, MAGI phase-outs, W-2 reporting, and anti-abuse rules will apply beginning in 2025.

- **The "No Tax on Tips" Provision:** The OBBBA created a new, temporary deduction for "qualified tips" received in certain occupations for tax years 2025 through 2028.
- **Qualifying Occupations:** The Treasury and IRS released a preliminary list of occupations that "customarily and regularly received tips on or before December 31, 2024," which includes many non-traditional tipped jobs like dishwashers, plumbers, and home electricians.
- **New W-2 Reporting:** Beginning with the 2026 tax year, employers will be required to report a unique Treasury Tipped Occupation Code (TTOC) in a new Box 14(b) on the Form W-2 for each eligible employee.
- **Exclusions:** Tips received in the fields of health, performing arts, and athletics are explicitly excluded from this deduction.

### NOTES
