



Coastal Tax and Consulting Group, LLC

P.O. Box 555 Manasquan, NJ 08736

coastal@coastaltaxnj.com (732)820-7263 www.coastaltaxnj.com

Nicole J Loughrey, E.A. Christine McDermott

H.R.1- One Big Beautiful Bill Act ("BBB") was signed into law on July 4, 2025, significantly altering the tax code by making many expiring provisions of the Tax Cuts and Jobs Act (TCJA) permanent. It also introduces several new provisions to the Internal Revenue Code. Below are just a few updates we chose to highlight for individuals and businesses:

INDIVIDUAL:

Tax Rates: Permanently extends the reduced tax rates from the TCJA and adds an additional year of inflation adjustment for the lowest two rates' income brackets.

Standard Deduction: Permanently extends the increased standard deduction amounts from the TCJA, with a slight increase to \$15,750 for single filers, \$23,675 for head of household filers, and \$31,500 for joint filers for tax year 2025.

Increased Senior Deduction: Adds a temporary \$6,000 deduction (available if itemizing or not) for each individual over the age of 65 for tax years 2025-2028, subject to phaseouts starting at MAGI of \$75,000 (\$150,000 if MFJ). The full deduction is phased out at \$175,000 (or \$250,000 if MFJ).

Personal Exemptions: Permanently terminates personal exemptions.

Child Tax Credit: Permanently increases the child tax credit to \$2,200 beginning in 2025, indexed for inflation (including the refundable portion), and makes the \$500 dependent credit permanent.

State and Local Tax Deduction (SALT): The state and local tax deduction limitation is temporarily increased to \$40,000 (\$20,000 if married filing separately). The marriage penalty is continued. This amount will increase by 1% for tax years 2026, 2027, 2028, and 2029. Beginning in 2030, the amount will revert back to \$10,000/\$5,000 permanently, with no inflation adjustment.

Qualified Business Income (QBI) Deduction: Permanently extends the Qualified Business Income (QBI) Deduction under IRC Sec. 199A, with the deduction amount generally remaining 20%, and increases the beginning phase-out threshold to \$75,000 (\$150,000 if married filing jointly). It also adds a \$400 minimum deduction for taxpayers who materially participate in a business and have \$1,000 of QBI.

Estate Tax Exemption: Permanently increases the estate and gift tax exemption to \$15,000,000, adjusted annually for inflation.

Alternative Minimum Tax: Makes the increased thresholds at which the Alternative Minimum Tax applies permanent and reverts the threshold amounts back to pre-inflation adjusted levels beginning in 2026. The phaseout amount is increased to 50% of the amount by which the taxpayer's AMT income exceeds the threshold amount.

Mortgage Interest Deduction: Makes the \$750,000 mortgage interest deduction limitation permanent. Allows PMI to be deducted.

Permanent Disallowances: Permanently disallows miscellaneous itemized deductions (other than educator expenses), moving expenses reimbursements, and bicycle commuting reimbursements. This is effective for tax years after December 31, 2025.



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**Itemized Deduction Limitation:** Permanently replaces the “Pease limitation” and limits the amount of itemized deductions by reducing the allowable deductions by 2/3rds of the lesser of the amount of allowable deductions or the amount by which the taxpayer's taxable income exceeds the dollar amount at which the 37% tax bracket begins. This effectively limits the deduction for taxpayers in the highest bracket to \$0.35 per dollar otherwise allowable.

**No Tax on Tips:** Creates a temporary deduction of up to \$25,000 of qualified tips received by a qualified individual with a MAGI of \$150,000 (\$300,000 if MFJ) for tax years 2025-2028.

**No Tax on Overtime:** Creates a temporary deduction of \$12,500 (\$25,000 if MFJ) for qualified overtime compensation for individuals with a MAGI of \$150,000 (\$300,000 if MFJ) for tax years 2025-2028.

**Trump Accounts:** Allows individuals or employers to contribute up to \$5,000 per year (adjusted annually for inflation after 2027) for children who are under the age of 18. A pilot program would automatically create an account and deposit a one-time, \$1,000 tax credit for qualifying children born during taxable years 2025-2028.

**Adoption Credit:** Allows for up to \$5,000 of the adoption tax credit to be refundable, increases the exclusion for dependent care assistance to up to \$7,500, and increases the maximum credit for child and dependent care to 50% of qualified expenses, up to \$3,000 (\$6,000 if caring for two or more dependent individuals), subject to income thresholds.

**Car Loan Interest Deduction:** Creates a temporary deduction for interest for new vehicle loans (with final assembly in the U.S.) for tax years 2025-2028. The deduction begins to phase out with MAGI of \$100,000 (\$200,000 if MFJ) and is reduced by \$200 for each \$1,000 over the threshold.

**Charitable Deduction for Non-Itemizers:** Creates a permanent charitable deduction for taxpayers who take the standard deduction of \$1,000 (\$2,000 if MFJ) with caveats.

**Charitable Deduction Floor:** Creates a permanent floor of 0.5% of the taxpayer's AGI for charitable contributions made by itemizers and permanently extends the increased charitable contribution limit of 60% of AGI for cash contributions.

**529 Plan Enhancements:** Allows certain elementary, secondary, homeschool, and post-secondary credentialing expenses to be treated as “higher education” expenses for purposes of IRC Sec. 529.

#### ENERGY CREDITS:

**Clean Vehicle Credits:** Terminates clean vehicle credits under IRC Secs. 25E (Used Clean Vehicle Credit), 30D (Clean Vehicle Credit), and 45W (Qualified Commercial Clean Vehicle Credit) after September 30, 2025.

**Clean Building Credits:** Terminates IRC Secs. 30C (Alternative Fuel Vehicle Refueling Credit), 45L (New Energy Efficient Home Credit), and 179D (Energy Efficient Commercial Buildings Deduction) after June 30, 2026.

**Home Efficiency Credits:** Terminates IRC Secs. 25C (Energy Efficient Home Improvement Credit) and 25D (Residential Clean Energy Credit) after December 31, 2025.

\*\*As the IRS continues to interpret the new tax bill, guidance will be finalized. Therefore, information is meant to inform but is subject to change per Internal Revenue Service.



## **BUSINESS:**

Full Expensing for **Domestic R&D**: Creates IRC Sec. 174A, which permanently allows businesses to fully expense domestic research and development expenditures, retroactive to January 1, 2025. The bill allows small businesses (those with gross receipts under \$31 million in 2025) to amend returns back to tax years beginning after December 31, 2021, and all taxpayers to immediately deduct any domestic expenses paid or incurred between December 31, 2021, and January 1, 2025, that are being amortized over one or two years ratably, starting with the 2025 taxable year.

**Qualified Small Business Stock/IRC Sec. 1202**: Sec. 1202 is enhanced for stock acquired after the date of enactment of the bill ~ the exclusion amount is increased to \$15,000,000 and will be increased with inflation beginning in 2027, the aggregate assets amount is increased to \$75,000,000 and will be increased with inflation, and the percentage that taxpayers can exclude is now dependent on the following holding periods:

3 Years – 50%; 4 Years – 75%; 5 Years – 100%

**Bonus Depreciation**: The bill contains two bonus depreciation provisions ~ Permanently extends 100% bonus depreciation for property acquired and placed in service after January 19, 2025. (Note: Property placed in service before January 20, 2025, would be limited to 40% bonus (or 60% if long-term property) and temporarily allows 100% depreciation for qualified production property, construction of which begins after January 19, 2025, and before January 1, 2029, and is placed in service before January 1, 2031.

**IRC Sec. 179 Expensing**: Permanently increases the IRC Sec. 179 expense amount to \$2.5 million and the phase-out threshold amount to \$4 million, retroactive to Jan. 1, 2025.

**Paid Family and Medical Leave Credit**: Permanently extends the paid family and medical leave credit.

**IRC Sec. 48D**: Increases the advanced manufacturing investment credit from 25% to 35%.

**Employer Provided Childcare Credit**: Permanently enhances the employer-provided childcare credit by increasing the maximum credit to \$500,000 (\$600,000 for small businesses with gross receipts under \$31 million) and the percentage of covered expenses to 40% (50% for small businesses).

IRC Sec. 461(l) **Excess Business Losses**: Permanently extends the limitation on excess business losses for taxpayers other than corporations under IRC Sec. 461(l). (Provisions disallowing the use of excess business loss carryforwards as Net Operating Losses in future years were removed from the bill.)

**Charitable Deduction Floor**: Creates a 1% floor for charitable contributions by C corporations, limiting their deduction to 9%.

*The “BBB” potentially impacts every taxpayer. For businesses, third-quarter reporting will likely be impacted most immediately; but businesses that filed extensions in anticipation of retroactive provisions may also benefit. Individuals may have questions about how the increases to the standard deduction, new*

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deductions for seniors, and increase to the estate and gift tax exemption will impact their planning this year and next. We will continue to provide client reach out but are available for consulting services for your consideration ~ coastal@coastaltaxnj.com

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