

Taxation of Individual Income

13th Edition

STUDENT SUPPLEMENT

Fall 2025

J. Martin Burke

PROFESSOR OF LAW EMERITUS
UNIVERSITY OF MONTANA SCHOOL OF LAW

Michael K. Friel

PROFESSOR OF LAW EMERITUS
UNIVERSITY OF FLORIDA COLLEGE OF LAW

This Supplement highlights amendments to the Internal Revenue Code as part of legislation entitled “The One Big Beautiful Bill Act” and signed by the President on July 4, 2025.

CAROLINA ACADEMIC PRESS
Durham, North Carolina

Copyright © 2025
Carolina Academic Press, LLC
All Rights Reserved

Carolina Academic Press
700 Kent Street
Durham, North Carolina 27701
Telephone (919) 489-7486
Fax (919) 493-5668
E-mail: cap@cap-press.com
www.cap-press.com

CHAPTER 1: INTRODUCTION TO FEDERAL INCOME TAXATION

This supplement to Chapter 1 identifies those portions of OBBBA that may affect the calculation of Caroline's tax liability as set forth in the text, but in light of the numerous variables involved in the calculation, it does not attempt to determine a specific post-OBBBA tax liability.

Page 10: Tax Rates: OBBBA does not affect Caroline's tax rate, but it has amended § 1(j) to make the tax rates permanent.

Page 11: Calculating Gross Income: The calculation of Caroline's gross income (\$320,000) is unchanged following the enactment of OBBBA.

Page 14: Determining Deductions: Two of Caroline's deductions are potentially affected by OBBBA. In addition the § 68 "2/37 cutback" (see § 68 as amended by OBBBA) may affect Caroline.

Page 17: State and Local Taxes: The deduction for state and local taxes has been subject to an aggregate limit of \$10,000 by § 164(b)(6). OBBBA has amended § 164(b)(6) to allow an aggregate deduction as great as \$40,000 for 2025, with incremental increases thereafter, subject to a phase-down (that would not apply to Caroline) based on modified adjusted gross income. (The § 164(b)(6) limitation is scheduled to revert to \$10,000 in 2030.) As a result of the change in the limitation, Caroline would be able to claim, as itemized deductions, the full \$19,000 in real property taxes and state income taxes.

Page 17: Charitable Contributions: OBBBA has made two separate changes to the charitable deduction. First, it has amended § 170(p), effective in 2026, to create for taxpayers who do not itemize deductions an above-the-line charitable deduction up to \$1,000 for unmarried taxpayers such as Caroline (\$2,000 for married taxpayers filing a joint return). Since Caroline itemizes deductions, she would not be able to claim the above-the-line deduction. Second, OBBBA has cut back the charitable deduction for taxpayers such as Caroline who do itemize deductions. OBBBA has added in § 170(b)(1)(I) a 0.5 percent floor, effective in 2026, on the charitable deduction. Under the 0.5 percent floor, charitable contributions will be deductible only to the extent they exceed 0.5 percent of the taxpayer's "contribution base," generally the taxpayer's adjusted gross income. Thus, assuming an adjusted gross income and contribution base of \$200,000, charitable contributions would be allowable only to the extent they exceed \$1,000, 0.5 percent of \$200,000. This 0.5 percent floor could thus impact Caroline in 2026.

Page 17: The 2/37 Cutback: For taxpayers whose taxable income places them in the 37 percent rate bracket, OBBBA has added a limitation, effective in 2026, on the tax benefit of itemized deductions. Under amended § 68(a), otherwise allowable itemized deductions are reduced by the lesser of two amounts: (1) 2/37 of the amount of the itemized deductions, or (2) 2/37 of the amount of the taxpayer's taxable income subject to the 37 percent rate bracket. Caroline's taxable income does not currently reach the 37 percent rate bracket level, so she is not affected by the cutback in amended § 68(a).

Page 17: Calculating Adjusted Gross Income. The calculation of Caroline’s adjusted gross income (\$230,000) is unchanged by the enactment of OBBBA.

Page 18: Calculating Taxable Income: Standard Deduction: OBBBA has made permanent the increased standard deduction of § 63(c)(7). For Caroline, as an unmarried taxpayer, the standard deduction for 2025 is \$15,750. § 63(c)(7)(A)(ii).

Page 18: Calculating Taxable Income — Miscellaneous Itemized Deductions: OBBBA has amended § 67(g) [re-lettered as § 67(h)] to make permanent the disallowance of miscellaneous itemized deductions.

Page 19: Calculating Taxable Income — Personal Exemptions: OBBBA has amended § 151(d)(5) to make permanent the termination of the deduction for personal exemptions, with an exception for a personal exemption through 2028 of up to \$6,000, based on adjusted gross income, for individuals age 65 and older.

CHAPTER 2: GROSS INCOME — CONCEPTS AND LIMITATIONS

Gross income includes compensation for services. § 61(a)(1). Thus, both overtime compensation and tips (see Treasury Regulation § 1.61-2(a)) are gross income. OBBBA, however, creates deductions for both tips (new § 224) and overtime compensation (new § 225). These new deduction provisions, effective for taxable years beginning after December 31, 2024 and before January 1, 2028, will be briefly discussed in Chapter 12 of this Supplement.

Page 28: Add the following footnote at the end of the carryover paragraph:

FN1 Pursuant to § 73001 of OBBBA, federal funds may not be used to provide unemployment compensation benefits to an individual whose annual wages are equal to or exceed \$1 million.

CHAPTER 8 PART C — INDIVIDUAL RETIREMENT ACCOUNTS

OBBBA adds new § 530A authorizing the creation of investment accounts - so-called Trump Accounts — for children under the age of 18 who are U.S. citizens . These accounts are generally treated in the same manner as individual retirement accounts under § 408(a) and are eligible for additional after-tax contributions of \$5,000 annually (indexed for inflation) before the calendar year in which the account beneficiary attains age 18. § 530A(c)(2)(A). No distribution from a Trump Account will be allowed before the first day of the calendar year in which the account beneficiary attains age 18. § 530A(d)(1). Pursuant to a pilot program under new § 6434, the federal government will provide a \$1,000 contribution to Trump accounts created for each child who is born after December 31, 2024, and before January 1, 2029, and who is a United States citizen with a valid Social Security number. Employers may also make contributions up to \$2,500 annually for the Trump Accounts of their employees or employee's dependents.

Page 166, third paragraph: The \$1,000 catch-up contribution for taxpayers age 50 and over is indexed for inflation for years after 2023. See § 219(b)(5)(C)(iii), as amended by Secure 2.0 Act of 2022 which was enacted in December 2023 as part of the Consolidated Appropriations Act of 2023 (the Omnibus Budget Bill).

Page 167, carryover paragraph: Note, as indicated above, the indexing for years after 2023 of the \$1,000 catch-up contribution.

Page 167, last line: Effective for taxpayers attaining the age of 72 after 2022, the required beginning date for mandatory distributions is changed from April 1 of the year following the calendar year the taxpayer attains age 72 to April 1 of the year following the calendar year the taxpayer attains “the applicable age.” § 401(a)(9)(C), as amended by Secure 2.0 Act. The applicable age for beginning distributions is age 73 for taxpayers who attain age 72 after December 31, 2022 and age 73 before January 1, 2033. § 401(a)(9)(C)(v)(I). (Secure 2.0 Act provides that, for taxpayers who attain age 74 after December 31, 2032, the applicable age is 75.) § 401(a)(9)(C)(v)(II). Note: We believe there is a drafting error and the statute should provide that, **for taxpayers who attain age 73 after 2032**, the applicable age is 75.)

Page 168, carryover paragraph: Secure 2.0 Act added several new exceptions to the § 72(t) penalty tax, including exceptions for distributions on account of certain emergency expenses, domestic violence, terminal illness, and Federally declared disasters, each with its own qualifications and limitations.

Page 168, first full paragraph: Note, as indicated above, the indexing for years after 2023 of the \$1,000 catch-up contribution.

Page 168, final paragraph: Note, as indicated above, the change in the required beginning date from age 72 to “the applicable age.”

CHAPTER 9: DISCHARGE OF INDEBTEDNESS

Page 183: Add the following to the carryover paragraph under Discharge of Certain Student Loans: Effective beginning in 2026, OBBBA amended § 108(f)(5) to exclude from gross income student loans discharged on account of the student’s death or total and permanent disability. (OBBBA, however, did not extend beyond 2025 the temporary removal of the requirement for exclusion, noted in this paragraph, regarding working “for a certain period of time in certain professions for any of a broad class of employers.”)

Page 184: Add the following sentence to the carryover paragraph under Discharge of Qualified Principal Residence Indebtedness:

OBBBA did not extend beyond 2025 the exclusion for the discharge of qualified principal residence indebtedness.

CHAPTER 11: FRINGE BENEFITS

Page 234 — Footnote 2: OBBBA has amended § 132(g) to permanently terminate qualified moving expense reimbursement as an excludable fringe benefit, with an exception to the disallowance for “members of the intelligence community.” Similarly, OBBBA has amended § 217(k) to permanently disallow a deduction for moving expenses, again with an exception for members of the intelligence community.

Pages 239–40 — Footnote: Note that OBBBA has amended § 67(g) to permanently disallow a deduction for miscellaneous itemized deductions.

Page 241 — Footnote 9: OBBBA has amended § 132(f) to permanently disallow qualified bicycle commuting reimbursement as an excludable fringe benefit.

CHAPTER 12: BUSINESS AND PROFIT SEEKING EXPENSES

Page 257: In the Internal Revenue Code assignment note that, effective for taxable years after December 31, 2025, § 67(g) as a result of an amendment by OBBBA has been redesignated as § 67(h).

Page 263 footnote 3: Replace footnote 3 with the following footnote:

3. Section 162(m) limits to \$1,000,000 per year the otherwise allowable deduction for remuneration paid by publicly held corporations (as defined in § 162(m)(2)) to certain employees (referred to as “covered employees”) for services performed. Section 162(m)(3) defines “covered employees” to include: (1) the principal executive officer or principal financial officer of the taxpayer at any time during the taxable year, or was an individual acting in such a capacity; (2) an employee whose total compensation for the taxable year is required to be reported to shareholders under the Securities Exchange Act of 1934 by reason of such employee being among the 3 highest compensated officers for the taxable year (other than any individual described in (1) above; (3) in the taxable years beginning after December 31, 2026, such employee is among the 5 highest compensated employees for the taxable year other than any individual described in (1) or (2) above; (4) a person who was a covered employee described in subparagraph (1) or (2) of the taxpayer (or any predecessor) for any preceding taxable year beginning after December 31, 2016.

Page 276 carryover paragraph: OBBBA has made permanent § 67(g) and, effective for taxable years after December 31, 2025, has redesignated § 67(g) as § 67(h).

Page 278: In the second paragraph, note that OBBBA has made permanent § 67(g) and, effective for taxable years after December 31, 2025, has redesignated § 67(g) as § 67(h).

Page 280: Eliminate footnote 17.

CHAPTER 13: DEDUCTION FOR QUALIFIED BUSINESS INCOME: SECTION 199A

Rev. Proc. 2024-40, 2024-45 I.R.B. 1100 provides that, for taxable years beginning in 2025, the threshold amounts under § 199A(e)(2) and phase-in range amounts under § 199A(b)(3)(B) and § 199A(d)(3)(A) are:

Filing Status	Threshold amount	Phase-in range amount
Married Individuals Filing Joint Returns	\$394,600	\$494,600
Married Individuals Filing Separate Returns	\$197,300	\$247,300
All Other Returns	\$197,300	\$247,300

Note 1: OBBBA makes permanent and enhances the § 199A deduction for qualified business income. As provided under prior law, no limitation applies to the deductible amount under § 199A(b)(2) if the taxpayer's taxable income does not exceed the threshold amount (\$157,000 for single filers and \$315,000 for joint filers — both figures as adjusted for inflation noted above). Under OBBBA, the § 199A(b)(3)(B)(i)(I) phase-in of the limit on the deductible amount now applies if the taxpayer's taxable income does not exceed the threshold amount by \$75,000 (instead of \$50,000 as under prior law) in the case of single filers and \$150,000 (instead of \$100,000 as under prior law) in the case of joint filers. Similarly, as amended by OBBBA, § 199A(d)(3), a specified service trade or business of a taxpayer will be treated as a qualified trade or business if the taxpayer's taxable income is less than the sum of the threshold amount plus \$75,000 (instead of \$50,000 as under prior law) in the case of a single filer and \$150,000 (instead of \$100,000 as under prior law) in the case of joint filers. **Thus, consistent with the amendments to § 199A(b)(3)(B)(i)(I) and § 199A(d)(3), all references in this Chapter to the \$50,000 and \$100,000 taxable income figures of those provisions should be changed to \$75,000 and \$150,000.** These amendments to § 199A are effective for taxable years beginning after December 31, 2025.

Note 2: In addition to increasing the taxable income limits noted above, OBBBA provides for a minimum deduction under § 199A of \$400 for taxpayers whose aggregate qualified business income with respect to all active qualified trades or businesses of the taxpayer for such taxable year is at least \$1,000. § 199A(i). This amendment to § 199A is also effective for taxable years beginning after December 31, 2025.

Page 299: In answering the questions raised in Problem 2, assume the tax year is 2026. In addition make the following changes: (1) In Problem 2(d) substitute \$250,000 for \$225,000. (2) In Problem 2(f) substitute \$195,000 for \$197,500.

Page 300: In answering the questions raised in Problem 3, assume the tax year is 2026.

Page 302: Include the following footnote at the end of the carryover paragraph on this page:

FN 1 § 199A(i) (added by OBBBA) provides a minimum deduction of \$400 for taxpayers whose aggregate qualified business income with respect to all active qualified trades or businesses of the taxpayer for such taxable year is at least \$1,000.

CHAPTER 14: CAPITAL EXPENDITURES

Page 322 — Amounts Paid to Acquire or Produce Tangible Property: While amounts paid to acquire or produce tangible property must ordinarily be capitalized, OBBBA has added § 168(n) to create a significant exception for “qualified production property,” with respect to which, at the taxpayer’s election, a depreciation deduction of 100 percent of the property’s adjusted basis may be taken in the year the property is placed in service. In general terms, qualified production property is that portion of nonresidential real property used as an integral part in the manufacturing, production or refining of tangible personal property. (Portions of the real property unrelated to such manufacturing, production or refining are not included as qualified production property.) The original use of such property must generally commence with the taxpayer, and the provision applies to the construction of such property beginning after January 19, 2025, and before January 1, 2029.

CHAPTER 15: DEPRECIATION

Note 1: Effective for “qualified property” (e.g., machinery, equipment, nonresidential interior improvements) **placed in service after January 19, 2025**, OBBBA restores and makes permanent 100 percent expensing under § 168(k)(1)(A) (the additional-first-year or bonus depreciation rule) and eliminates the phase-down rules of § 168(k)(6) and (8). For example, assume a taxpayer purchased and placed in service qualified property (e.g. machinery, equipment, or nonresidential interior improvements) classified as 5-year property and costing \$1,000,000 on **January 20, 2025** and did not elect out under § 168(k)(7). The taxpayer could deduct the full cost of the property. If, instead, the taxpayer had purchased and placed in service the same property **on January 19, 2025**, the taxpayer’s § 168(k) depreciation deduction would be computed pursuant to the percentage phase-down rules of § 168(k)(6)(A) and the taxpayer, would be entitled only to a 40 percent depreciation deduction or (\$400,000) with respect to that property in 2025 pursuant to § 168(k)(1)(A) . § 168(k)(6)(iv). The amount of depreciation so computed would reduce the taxpayer’ adjusted basis in the property to \$600,000 (§ 168(k)(1)(B)) and that amount would be subject to depreciation of 20% in 2025 (or \$120,000) pursuant to the rules of § 168(a). Taxpayer would thus be entitled to depreciation deductions totaling \$520,000 in 2025.

Note 2: Expensing under § 168(k)(1)(A) is limited to “qualified property” which, among other limitations, is defined as property having a recovery period of 20 years or less. § 168(k)(2). Given this limitation, nonresidential real property is not “qualified property.” OBBBA, however, creates a new subsection § 168(n) allowing a taxpayer to elect a depreciation deduction under § 167 equal to 100 percent of the adjusted basis of “qualified production property.” “Qualified production property “ is defined in new § 168(n)(2) as nonresidential real property (1) for which construction begins after January 19, 2025 and before January 1, 2029; (2) which is placed in service in the United States or a U.S. possession before January 1, 2031; (3) the original use of which commences with the taxpayer; and which is used by the taxpayer as an integral part of a qualified production activity (i.e., manufacturing, production, or refining of a qualified product (“any tangible property if such property is not a food or beverage prepared in the same building as a retail establishment in which such property is sold.)). Qualified production property does not include nonresidential property used for offices, parking lots, lodging, research activities and other functions unrelated to the manufacturing, production, or refining of tangible personal property. § 168(n)(2)(C). If at any time during a 10-year period beginning on the date the property was placed in service such property stops being qualified production property, the depreciation expense shall be recaptured pursuant to § 1245. § 168(n)(5) (Depreciation recapture will be discussed in Chapter 31).

Note 3: OBBBA makes the following amendments to § 179 (Election to expense certain depreciable business assets) for any Section 179 property placed in service after December 31, 2024: (1) the aggregate costs which may be treated as an expense for any taxable year shall not exceed \$2,500,000; and (2) this \$2,500,000 limitation for any taxable year shall be reduced (but not below zero) by the amount by which the cost of Section 179 property placed in service during such taxable year exceeds \$4,000,000. § 179(b)(1) and (2) as amended by OBBBA. Thus, as under current law, a taxpayer, who places in service more than one Section 179 property during the year, can allocate the available § 179 deduction among the properties in any way, as

long as the total deduction is not more than \$2,500,000. A taxpayer does not have to claim the maximum deduction available under § 179 deduction.

Page 353: Substitute the following Problem for Problem 2 in the casebook:

2. Elisabeth owns and operates a medical diagnostic imaging business as a sole proprietor. On January 20, 2025, she purchased and placed in service two pieces of new imaging equipment. One piece of equipment (hereinafter Equipment #1) cost \$1,500,000 while the other piece (hereinafter Equipment #2) cost \$3,000,000. She used \$1,000,000 of her own funds to purchase the equipment and borrowed the other \$3,500,000 from a local bank. Assume the equipment is 5-year property under § 168 and is the only depreciable property Elisabeth placed in service in her business in 2025. Elisabeth's taxable income for 2025, computed without regard to any deductions allowable with respect to the equipment, was \$4,000,000.
 - (a) Disregarding any application of § 179 and assuming Elisabeth doesn't elect out of § 168(k), how much of the cost of the new equipment may Elisabeth deduct in 2025? What will Elisabeth's adjusted basis in the equipment be at the beginning of 2026? Would it make any difference if Elisabeth purchased and placed the equipment in service on December 1, 2025, rather than January 20, 2025?
 - (b) How would your answers to (a) change if the equipment were used when Elisabeth purchased it?
 - (c) How would your answers to (a) change if Elisabeth elected out of § 168(k)?
 - (d) If Elisabeth purchased and placed the two pieces of equipment in service on January 20, 2025, how much would Elisabeth's § 168 depreciation deductions be in 2025 if she elected out of § 168(k) but elected to take maximum advantage of § 179? What will the adjusted basis of each piece of equipment be at the beginning of 2026?

Page 354: Add to the Internal Revenue Code assignment § 168(k)(2)(B) and eliminate from the assignment § 168(k)(6).

Page 366: Add to footnote 8 the following paragraph:

Given the 20 years-or-less recovery period requirement, nonresidential real property is not "qualified property" for purposes of §168(k)(1). OBBBA, however, creates a new subsection § 168(n) allowing a taxpayer to elect a depreciation deduction under § 167 equal to 100 percent of the adjusted basis of "qualified production property." "Qualified production property" is defined in new § 168(n)(2) as nonresidential real property (1) for which construction begins after January 19, 2025 and before January 1, 2029; (2) which is placed in service in the United States or a U.S. possession before January 1, 2031; (3) the original use of which commences with the taxpayer; and which is used by the taxpayer as an integral part of a qualified production activity (i.e., manufacturing, production, or refining of a qualified product ("any tangible property if such property is

not a food or beverage prepared in the same building as a retail establishment in which such property is sold.). Qualified production property does not include nonresidential property used for offices, parking lots, lodging, research activities and other functions unrelated to the manufacturing, production, or refining of tangible personal property. § 168(n)(2)(C).

Page 367: In the carryover paragraph eliminate everything following “September 28, 2017–December 31, 2026” including the boxed material and add the following sentences: Effective for qualified property placed in service after January 19, 2025, OBBBA restores and makes permanent the 100 percent additional first year or bonus depreciation under amended § 168(k)(1)(A). At the same time, § 168(k)(6) providing for the phase-down of additional first year or bonus depreciation is repealed.

Page 367: Eliminate footnote 11.

Page 370: OBBBA makes the following amendments to § 179 (Election to expense certain depreciable business assets) for any Section 179 property placed in service after December 31, 2024: (1) the **aggregate costs of** which may be treated as an expense for any taxable year shall not exceed \$2,500,000; and (2) this \$2,500,000 limitation for any taxable year shall be reduced (but not below zero) by the amount by which the cost of Section 179 property placed in service during such taxable year exceeds \$4,000,000. § 179(b)(1) and (2) as amended by OBBBA. Note that a taxpayer can elect to expense all or part of the cost of Section 179 property up to the limits noted above.

CHAPTER 17: TRAVEL EXPENSES AND BUSINESS MEALS

Page 426: Following the last paragraph, note that OBBBA has amended § 67(g) to permanently disallow a deduction for miscellaneous itemized deductions (other than educator expenses), rather than merely suspending the disallowance through 2025.

Page 437 — Footnote 7: OBBBA has amended § 274(o) to permit employer deductions for meals provided on certain fishing boats and fish processing facilities.

CHAPTER 18: EDUCATION EXPENSES

Note: For taxable years beginning after December 31, 2025, OBBBA makes permanent the disallowance of miscellaneous itemized deductions thereby negating a deduction for most educational expenses incurred by employees. Former § 67(g) redesignated by OBBBA as § 67(h). OBBBA, however, amends § 67(b) to provide that deductions allowed by § 162 for “educator expenses” are not miscellaneous itemized deductions. § 67(b) (13). Section 67(g) defines educator expenses to be expenses paid by an “eligible educator” for professional development courses, books, supplies, computer equipment and other equipment used by the educator as part of instructional activity. OBBBA expands the definition of “eligible educator” in § 62(d)(1)(A) to include sports administrators and coaches.

Page 467: In the first paragraph under Overview, note that OBBBA has made permanent the disallowance of miscellaneous itemized deductions and has redesignated § 67(g) as § 67(h).

Page 468: In the final paragraph, note again that OBBBA has made permanent the disallowance of miscellaneous itemized deductions.

Page 491: Insert the following new paragraph:

Scholarships for Qualified Elementary or Secondary Education Expenses of Eligible Students. For taxable years beginning after December 31, 2026, OBBBA provides a tax credit of up to \$1,700 per taxpayer per year for qualified cash contributions to scholarship granting organizations which provide elementary and secondary education scholarships for eligible students. § 25F. The credit is reduced for any credit taxpayer may be allowed on taxpayer’s state tax return for the contribution. § 25F(b)(2). An eligible student must be a member of a household with an income not greater than 300 percent of area’s median gross income and must be eligible to enroll in a public elementary or secondary school. § 25F(c)(2). Scholarship granting organizations are defined as § 501(c)(3) organizations (other than private foundations) which meet a range or requirements, e.g., they must provide scholarships to ten or more students who do not attend the same school and must spend 90 percent of their income on scholarships. § 25F(c)(5) and (d). States must elect to participate in this program and must submit annually to the Secretary of the Treasury a list of scholarship granting programs that meet the requirements of § 25F(d)(1) and are located in the state. Taxpayers claiming the credit for their cash contributions cannot also claim a charitable deduction for their contributions. § 25F(e). OBBBA adds a new section — § 139K — excluding from gross income amounts received from scholarship granting organizations for qualified educational expenses.

Pages 493–494: With respect to § 529 plans, OBBBA amendments to § 529(c)(7) provide that any reference in § 529 to “higher education expense, will include the following expenses in connection with enrollment or attendance in elementary or secondary public, private, or religious schools: expenses for tuition, books, curricular materials, certain testing fees, dual enrollment fees, educational therapies for students with disabilities, certain tutoring costs, and online

education materials. OBBBA expands the list of qualified higher education expenses under § 529(e)(3) to include postsecondary credentialing expenses. It also increases the amount that can be distributed tax free under § 529(e)(3) from \$10,000 to \$20,000 effective for tax years after December 31, 2025.

Page 494: OBBBA has made permanent § 127(c)(1)(B) which excludes from an employee's income payments made by an employer either to an employee or to a lender of principal or interest on any qualified education loan incurred by the employee for the employee's education. OBBBA also indexes for inflation the \$5,250 annual exclusion for employer payments for educational assistance to employees.

CHAPTER 20: THE INTEREST DEDUCTION

Page 521 (including FN 5): OBBBA makes permanent the disallowance of home equity indebtedness income. It also provides that mortgage insurance premiums will be treated as qualified residence interest. § 163(h)(3)(F)(i)(III).

Page 521: OBBBA redesignates paragraph (4) of § 163(h) as paragraph 5 and adds a new paragraph (4) that provides that, for taxable years 2025 through 2029, “personal interest” for purposes of § 163(h) will not include up to \$10,000 of qualified passenger vehicle loan interest for any taxable year. The amount of interest on qualified passenger vehicle loans allowable as a deduction under § 163(a) will be reduced for taxpayers whose modified adjusted gross income exceeds \$100,000 (\$200,000 in the case of joint returns). § 163(h)(4)(C)(ii)(I). A qualified vehicle must meet a number of requirements including: (1) the original use of the vehicle must commence with the taxpayer. (2) The vehicle must be manufactured primarily for use on public roads, streets, and highways. (3) The vehicle is required to have a minimum of two wheels and is a car, minivan, sport utility vehicle, pickup truck, or motorcycle with a gross vehicle weight rating of less than 14,000 pounds. (4) Final assembly of the vehicle must take place in the United States. § 163(h)(4)(D). OBBBA amends § 63(b) to add new paragraph (7) which allows nonitemizers to claim the § 163(a) interest deduction for qualified passenger vehicle loans above the line (i.e., in computing the taxpayers adjusted gross income).

Page 525: In the carryover paragraph on this page substitute OBBBA for Tax Cuts and Jobs Act of 2017.

Page 528 footnote 11: OBBBA makes floor plan financing applicable also to certain trailers or campers towed by or affixed to a motor vehicle and “designed to provide temporary living quarters for recreational, camping, or seasonal use.”

CHAPTER 21: THE DEDUCTIONS FOR TAXES

Page 544: Aggregate Limitation of \$10,000 on § 164 Deductions: After the first paragraph under this heading, insert the following: OBBBA amended § 164(b)(6) to increase significantly the \$10,000 limitation from 2025 through 2029. For 2025, the limitation is \$40,000 (\$20,000 for a married taxpayer filing a separate return), an amount which increases by 1 percent a year through 2029, after which the limitation reverts to \$10,000. The \$40,000 limitation is, however, reduced for taxpayers whose modified adjusted gross income (for most taxpayers, modified adjusted gross income is simply adjusted gross income) exceeds a threshold amount of \$500,000 (\$250,000 for a married taxpayer filing a separate return). The threshold amount increases by 1 percent each year through 2029. The \$40,000 limitation is reduced (but not below \$10,000) by 30 percent of the amount by which the taxpayer's modified adjusted gross income exceeds the threshold amount. Assume, for example, the year is 2025 when the aggregate limitation is \$40,000, and the threshold amount is \$500,000. If the taxpayer's modified adjusted gross income is \$550,000, the \$40,000 aggregate limitation is reduced to \$25,000 – that is, the \$40,000 limitation is reduced by \$15,000, which is 30 percent of the \$50,000 excess over the \$500,000 threshold amount.

CHAPTER 22: CASUALTY LOSSES

Note: OBBBA extends and modifies the § 165(h) and (i) casualty loss limitations. Specifically, OBBBA amends the heading of § 165(h) to read “Limitation for taxable years beginning after 2017.” Section 165(h)(5)(A) is amended to include casualty losses attributable to a “State declared disaster.” Likewise, § 165(h)(5)(B) is amended to include casualty losses attributable to a “State declared disaster.” OBBBA adds new paragraph (C) to § 165(h)(5) which defines “State declared disaster” and the term “State.” These amendments are effective for taxable years beginning after December 31, 2025.

Page 554: In the last paragraph on this page, note that OBBBA makes the I.R.C § 165(h) limitations applicable for taxable years after 2017 and amends the provision to include a “State declared disaster.”

Page 561: In each paragraph on this page, following a reference to “Federally declared disasters” add or “State declared disasters.”

CHAPTER 24: CHARITABLE CONTRIBUTIONS

Note 1: Under current law, taxpayers who do not itemize are not entitled to a deduction for their charitable contributions. OBBBA, however, reinstates and expands § 170(p) which, for taxable years after December 31, 2025, will allow taxpayers who do not itemize to claim a charitable deduction of up to \$1,000 (single filers) or \$2,000 (joint filers) for contributions made in cash during a taxable year to an organization described in § 170(b)(1)(A) but not to so-called supporting organizations (§ 509(a)(3) or donor advised funds (§ 4966(d)(2)). This new above-the-line deduction is not subject to the .5 percent adjusted gross income floor (§ 170(b)(1)(I)) for charitable contribution deductions created by OBBBA. § 170(p) (as amended by OBBBA).

Note 2: Section 170(g)(1)(B) (added by the Tax Cuts and Jobs Act) allows cash contributions to charity to be deducted up to 60 percent of the taxpayer's contribution base. OBBBA amends the provision to provide that the deduction for cash contributions cannot exceed the *excess* of 60 percent of the taxpayer's contribution base over the aggregate amount of contributions allowed under § 170(b)(1)(A).

Note 3: Effective for taxable years beginning after December 31, 2025, OBBBA amends § 170(b)(1) to create a floor whereby charitable contributions otherwise allowable as deductions under § 170 will be allowed only to the extent that the aggregate of such contributions exceeds .5 percent of the taxpayer's contribution base (i.e., adjusted gross income per § 170(b)(1)(H)) for the taxable year. § 170(b)(1)(I). In most cases, the charitable contributions disallowed as a result of the application of the .5 percent floor will be permanently lost. If, however, the taxpayer has a carryover (e.g., the excess resulting from the various percentage limitations of § 170(b)), the contribution disallowed under the .5 percent floor will be added to the excess and will also carryforward for up to five years.

Page 590: In the first paragraph of the Overview, note that, as a result of amendments to § 68 (*and disregarding the new .5 percent floor on charitable deductions*), a taxpayer in the 37 percent tax bracket who contributes \$1,000 to an art museum will be out of pocket \$650, i.e., the \$1,000 charitable deduction will reduce the taxpayer's tax liability by \$350.

Page 590 footnote 1: Note that OBBBA reinstates and expands § 170(p) which, for taxable years after December 31, 2025, will allow taxpayers who do not itemize to claim a charitable deduction of up to \$1,000 (single filers) or \$2,000 (joint filers) for contributions made in cash during a taxable year to an organization described in § 170(b)(1)(A).

Page 590 footnote 2: See footnote 1 above. Note also that OBBBA amends § 63(e)(7) to increase the standard deduction effective for taxable years beginning after December 31, 2024.

Page 590: Add the following footnote following the second sentence in the first paragraph of the Overview:

OBBBA creates a new credit, § 25F, as an incentive for taxpayers to contribute to scholarship granting organizations which provide primary and secondary education scholarships. See brief discussion in Chapter 18 of this Supplement.

Page 593 footnote 3: Note that, effective for taxable years beginning after December 31, 2024, OBBBA has significantly increased the § 164(b)(6) limit. See discussion in Chapter 21 of this Supplement.

Page 596: In the last full paragraph on the page note the following amendments made by OBBBA: (1) The 60%-of-contribution-base deduction for cash contributions is generally made permanent with some limitation (Note 2 above). (2) A modest above-the-line deduction for charitable contributions is allowed for nonitemizers (Note 1 above). (3) A .5 percent floor is imposed on charitable deductions (Note 3 above). (4) Itemized deductions are limited by amended § 68. (5) Charitable deductions for corporations are allowed only to the extent that a corporation's charitable contributions in the aggregate exceed 1 percent of the corporation's taxable income for the year and do not exceed 10 percent of its taxable income (§ 170(b)(2)(A) effective for taxable years after December 31, 2025).

CHAPTER 28: ANNUAL ACCOUNTING

Page 741 footnote 1: Note that OBBBA made permanent the disallowance rule of § 67(g) and redesignates it as § 67(h) for taxable years beginning after December 31, 2025.

CHAPTER 29: CAPITAL GAINS AND LOSSES

Page 775: At the end of the second paragraph, note that OBBBA amended § 1202 to provide for a phase-in of the exclusion from gross income on the sale of the “qualified small business stock.” Stock held for at least three years is entitled to an exclusion of 50 percent of the gain on sale; for at least four years, 75 percent of the gain; and for at least five years, 100 percent of the gain. In addition, the per- issuer limitation on eligible gain has been increased from \$10,000,000 to an inflation-adjusted \$15,000,000. Further, the corporate asset limit, to qualify as an eligible small business, has been increased from \$50,000,000 to an inflation-adjusted \$75,000,000.

Page 777 — first paragraph under B. Current Law — Section 1(h):

OBBBA has amended § 1(j) to make the lower ordinary income tax rates permanent rather than temporary through 2025.

CHAPTER 31: RECAPTURE OF DEPRECIATION

Page 836 — Footnote 2: OBBBA has amended § 1245 to include qualified production property as Section 1245 property. § 1245(a)(3)(G). Qualified production property is eligible for 100 percent expensing under § 168(n), as added by OBBBA. OBBBA has provided a specific recapture rule with respect to qualified production property. § 168(n)(5).

CHAPTER 36: TRANSFERS BETWEEN SPOUSES AND INCIDENT TO DIVORCE

Page 938: The Dependency Exemption and Related Tax Credits: OBBBA has amended § 151(d)(5) to make permanent the zero amount of the personal exemption and the dependency exemption, which had prior to OBBBA been zero only for the years 2018 through 2025. (OBBBA provides in § 151(d)(5)(C) a temporary personal exemption of up to \$6,000 per year through 2029 for individuals age 65 or older.)

CHAPTER 41: ORIGINAL ISSUE DISCOUNT

Page 1088 — Footnote 19: The inflation-adjusted limit for 2025 for the \$2,000,000 rule of § 1274A is \$5,211,900. Rev. Proc. 2024-40, 2024-45 I.R.B. 1100.

Page 1089 — Footnote 20: The inflation-adjusted limit for 2025 for qualifying sales of \$2,800,000 or less is \$7,296,700. Rev. Proc. 2024-40, 2024-45 I.R.B. 1100.

CHAPTER 42: LIMITATION ON TAX SHELTERS - SECTIONS 465, 469, AND 461(l)

Page 1103 — Footnote 11: OBBBA has amended § 67(g) to make permanent the disallowance of miscellaneous itemized deductions.

Page 1114: After the second paragraph in Overview: OBBBA has amended § 461(l)(1) to make permanent the limitation on excess business losses. OBBBA has also amended § 461(l)(3)(C) to provide for inflation adjustments to the limit after 2025.

CHAPTER 43: THE ALTERNATIVE MINIMUM TAX

Page 1119: After the second paragraph under A. Determining the Tentative Minimum Tax: OBBBA has amended § 55(d)(4)(A) to make permanent increased alternative minimum tax exemption amounts of \$109,400 on joint returns and corresponding increases on returns of unmarried individuals (\$70,300) and married taxpayers filing separate returns (\$54,700).

Page 1120: After the carryover paragraph: OBBBA has amended § 55(d)(4)(B) to make permanent the higher levels at which the exemption amount begins to phase out (\$1,000,000 on joint returns), and it has further amended § 55(d)(4)(A) to increase the phase-out rate, once the exemption amount is exceeded, from 25 percent of the excess to 50 percent of the excess.

Page 1120 -Footnote 1: OBBBA has made permanent the indexing for inflation of the exemption amounts and the exemption phase-out amount,

Page 1121 -Footnote 2: OBBBA has amended § 151(d)(5) to make permanent the disallowance of the personal exemption (with an exception for those age 65 and older).

Page 1121 -Footnote 3: OBBBA has amended § 67(g) to make permanent the disallowance of miscellaneous itemized deductions.