



OBBBA Tax Changes for Small Business Owners

free guide



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OBBBA TAX CHANGES FOR SMALL BUSINESS OWNERS

Tax Provision	Summary of Update
<p>Qualified Business Income Deduction (QBID)</p>	<ul style="list-style-type: none">• The 20% Qualified Business Income Deduction is now permanent. Under prior law, it was set to expire after 2025.• Applies to sole proprietorships, partnerships, S corporations, REITs, and PTPs.• Phase out range increases from \$50,000 to \$75,000 for single filers.• Phase out range increases from \$100,000 to \$150,000 for married filing jointly.• Minimum deduction of \$400, indexed for inflation.• Taxpayers with at least \$1,000 in active business income receive the greater of their calculated deduction or \$400, even if subject to phase out limits.• Applies to tax years beginning after December 31, 2025.



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Tax Provision	Summary of Update
Bonus Depreciation	<ul style="list-style-type: none">• Bonus depreciation allows businesses to expense qualifying property in the year it is placed in service instead of depreciating it over its recovery period.• Generally applies to new or used tangible property with a recovery period of 20 years or less, as well as off the shelf software.• There are no annual dollar limits, and it applies automatically unless the taxpayer elects out.• Under prior law, 100% was allowed in 2023, 60% in 2024, and was scheduled to decrease to 40% in 2025, 20% in 2026, and 0% in 2027. Certain long production period property qualified for 80% in 2024.• Under the new law, 100% bonus depreciation is made permanent for qualifying property purchased and placed in service after January 19, 2025.
Section 179 Expensing Limits	<ul style="list-style-type: none">• Section 179 allows immediate expensing of qualifying equipment and assets.• Under prior law, the 2025 limit was scheduled to be \$1,250,000, with a phase out beginning at \$3,130,000.• Under the new law, the 2025 limit increases to \$2,500,000, with the phase out beginning at \$4,000,000 (both amounts will be adjusted for inflation).



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"No Tax on Tips" Reporting	<ul style="list-style-type: none">• A new deduction for tips was created• Under the new law, employers and payors must separately report eligible tip income for workers who may qualify for the tip deduction.• Reporting forms must distinguish eligible tips from other compensation and include the recipient's occupation.• Applies to employees, independent contractors, and direct sellers.• Effective January 1, 2025. Transition rules for 2025 allow tips to be separated or estimated using any reasonable IRS approved method.
"No Tax on Overtime" Reporting	<ul style="list-style-type: none">• A new deduction for overtime was created• Under the new law, employers must separately report qualified overtime from other wages on Form W-2, or Form 1099 in limited cases.• Applies to employees who may qualify for the overtime deduction.• Effective January 1, 2025. Transition rules for 2025 allow overtime to be separated or estimated using any reasonable IRS approved method.



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Tax Provision	Summary of Update
1099 Reporting Threshold	<ul style="list-style-type: none">• Under prior law, businesses were required to issue a Form 1099 when payments to a payee exceeded \$600 per year. The same \$600 threshold applied to backup withholding if a correct taxpayer identification number was not provided.• Under the new law, the reporting and backup withholding threshold increases to \$2,000 beginning in 2026.• Starting in 2027, the \$2,000 threshold will be indexed for inflation.• Effective for payments made on or after January 1, 2026.
1099-K Reporting Thresholds	<ul style="list-style-type: none">• Under prior law, third party payment platforms must issue Form 1099-K when annual payment thresholds are exceeded.• Prior to 2024, the threshold was \$20,000 in payments and more than 200 transactions.• The threshold was reduced to \$5,000 in 2024, \$2,500 in 2025, and was scheduled to drop to \$600 in 2026.• Under the new law, the threshold permanently returns to \$20,000 and more than 200 transactions.• These same thresholds apply for backup withholding when a valid TIN is not provided.• Effective for transactions after 2023.



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