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Tax Newsletter

New Twists to Charitable Gift-Giving **Wrapping up the OBBBA changes**

In the past, donors to charitable causes who itemized on their returns could generally realize tax benefits for their generosity, within certain limits. But there was no “floor” on deductions like there is for medical expenses. Under the new One Big Beautiful Bill Act (OBBBA), for the first time ever, donors face an opening tax hurdle.

On the other hand, the new law provides more leeway to non-itemizers. If you take the standard deduction, you still may be eligible for a four-figure write-off.

Background: Prior to the OBBBA, itemizers could deduct the full amount of their charitable contributions to qualified organizations, subject to limits based on their adjusted gross income (AGI), but those taking the standard deduction received no tax benefit. As a result, you might “bunch” your charitable donations in a year in which you expect to itemize.

For instance, if you definitely will be itemizing deductions in 2025, it often makes sense to step up contributions late in the year. Conversely, if you are absolutely certain you will not be itemizing this year, you might postpone large donations to 2026. Under the OBBBA, the deduction limit for monetary gifts of 60% of your adjusted gross income (AGI) remains in effect after 2025. This limit was scheduled to revert to 50% of AGI in 2026.

However, deductions are not automatic. You must provide a bank record or written communication from a qualified charitable organization, showing the following:

- The amount of the contribution;
- The date the contribution was made; and
- The name of the charitable organization receiving the contribution.

As a result, you probably cannot deduct the spare change you donate to a sidewalk collector around the holidays. Conversely, large donations may be substantiated by bank or credit card statements. Furthermore, you must secure a written acknowledgment from the charity for monetary gifts of \$250 or more.

For donations of appreciated property, deductions are limited to a lower threshold of 30% of AGI. However, if you donate property that would have produced a long-term capital gain had you sold it instead—in other words, you have owned it more than one year—you can write off the property’s fair market value on the donation date. Otherwise, the deduction is limited to your original cost in the property.

New rules: Beginning in 2026, the OBBBA imposes a floor of 0.5% of your AGI on your charitable donation. For instance, if your AGI is \$100,000 and you donate \$5,000 this year, your deduction is reduced to \$4,500. You get no tax benefit from the first \$500 of donations. The disallowed portion may be carried forward to the next year, subject to the annual floor.

However, the new law also authorizes a new deduction of up to \$1,000 for charitable gifts made by non-itemizers, beginning in 2026 - A temporary deduction with a \$300 cap previously expired. This limit is doubled to \$2,000 for joint filers if each spouse separately qualifies. Key point: Unlike the charitable deduction for itemizers, there is no floor on deductions for non-itemizers.

Year-end decisions: Undoubtedly, these changes in the OBBBA, as well as other related provisions, may complicate your year-end charitable giving strategies. Discuss your personal situation with your professional tax advisors.

Sprinkle in New SALT Deductions

New law revamps tax rules

One of the key provisions in the massive tax law passed during President Trump's first term—the Tax Cuts and Jobs Act (TCJA)—capped the annual deduction for state and local tax (SALT) payments. Now the One Big Beautiful Bill Act (OBBBA) extends the limit with certain modifications that are generally favorable to itemizers.

The tax benefits of the SALT changes are phased out for high-income individuals, but some business owners may be able to use a “workaround” to avoid tax perils.

For starters, SALT payments are deductible only by itemizers. The deduction is comprised of the following three state and local portions:

- **Property taxes:** Typically, this includes taxes on the principal residence where you reside and any property taxes for a second home, such as a vacation home.
- **Income taxes:** These are income taxes you must pay to the applicable state and local tax authorities.
- **Sales taxes:** Frequently, you owe state and local sales taxes on goods or services you purchase in your state, unless an exception applies.

However, the SALT deduction combines state and local property taxes with *either* state and local income taxes or state and local sales taxes. Thus, you must choose between income and sales taxes. You cannot have it both ways.

Previously, SALT deductions were usually one of the biggest line entries on personal tax returns of high-income taxpayers. Then along came the TCJA. This law capped the annual deduction at \$10,000 for 2018 through 2025. It was scheduled to revert to prior law in 2026. As a result of the SALT cap and several other TCJA provisions, many individuals who had itemized in the past have opted to claim the standard deduction the last few years.

Update: The OBBBA modifies the rules again. On the plus side, it raises the cap to \$40,000—four times the prior level—beginning in 2025. For 2026 through 2029, the \$40,000 cap is increased by 1% each year, until it reverts to \$10,000 in 2030. These rules apply to both single and joint filers.

On the minus side, the new law includes a phase-out provision that reduces the deduction limit by 30% of the amount by which modified adjusted gross income (MAGI) exceeds \$500,000 until it reaches \$10,000. This phase-out threshold, like the initial cap, increases by 1% annually through 2029. In the end, some high-income individuals may pay more tax overall, even if they itemize deductions.

Potential solution: In more than half the states—including California, New York, and Ohio, to name three of the biggest—owners of pass-through entities like S corporations, partnerships and some limited liability companies (LLCs) may arrange for the entity to make SALT payments. Then the owner is entitled to a credit or deduction that is passed through to their personal return, effectively reducing tax liability. These rules vary state to state. Consult with your professional tax advisors about the details.

It is noteworthy that a proposed crackdown on SALT workarounds did not make it into the final version of the new law. But that may not be the last word on this issue. We will keep you posted on any significant developments.

Meet Your Family's Long-Term Needs Planning now for future obligations

According to the latest projections, the current life expectancy of the average U.S. citizen is 79.4 years, inching toward the age 80 mark. It is an increase from the previous figure of 78.4 years provided by the Centers for Disease Control and Prevention (CDCP).

Of course, the fact that people are living longer is good news. Nevertheless, an elderly relative who needs expensive long-term care could cause financial and emotional problems for the rest of the family.

Background: Because the risk of needing long-term care increases with age, it is important to plan ahead, both for yourself and other family members. For most people, the best time to take steps to address your family's needs are when you are relatively young and in reasonably good health.

Long-term care is the type of help people need when they are unable to perform “activities of daily living” (ADLs), such as eating, bathing and dressing. Typically, the ADLs do not have to be provided by doctors or by skilled nursing professionals.

Frequently, it is assumed that long-term care means care in a nursing home. While some people do require such specialized care, the type of long-term care may vary widely. Family members, adult day care centers and assisted-living facilities (ALFs) are among the most common care providers. Long-term care is not defined by the setting in which it takes place, but by the type of care that is needed.

The family dynamic today resembles little of those even a generation ago. Frequently, children live half a country or even half a world away—or at least in another U.S. state—and single-parent homes are more common. So are dual-income couples with one or both spouses also pursuing side hustles. The types of “safety nets” that many of the elderly felt they could rely in the past, such as in-home assistance from a relative living nearby or by someone living in the same home, may no longer be available to those requiring care.

Remember that long-term care has an impact on the entire family, not just the person who needs care. For instance, a family member—usually, a middle-aged adult with children of their own—might assume the role of unpaid caregiver for an aging parent or spouse.

These caregivers typically must make adjustments at work and in their careers, such as taking unexpected leaves of absence or having to turn down promotions, to provide the needed care for an ailing relative. Being a caregiver may also have an impact on their own family life (possibly even leading to divorce) and overall personal health.

Final thoughts: Do not stick your head in the sand and pretend that you will not be affected. With advance planning that address your personal circumstances, you can help protect the family's assets and current lifestyle. Meet this challenge head-on before it is too late.

How to Deduct Part of Your OT Pay **New law carves out special tax break**

Of course, wages paid by your employer are subject to federal income tax and must be reported on your 2025 tax return. But you cannot deduct any part of the amount you earn...right? Wrong. Under the new One Big Beautiful Bill Act (OBBBA), certain employees may be in line for a brand-new deduction on a portion of their "overtime (OT) pay," beginning in 2025.

However, the new OT deduction is reduced or eliminated for higher-income taxpayers. Plus, this tax break will not last forever. It is currently scheduled to be available for just four years.

Background: If a non-exempt employee works more than 40 hours during a week, they must be paid "time-and-a-half" their regularly hourly rate, according to the long-standing Fair Labor Standards Act (FLSA). For example, if an employee is paid \$50 an hour and works 60 hours in a week, their overtime pay is \$1,500 ($\75×20 hours), before any payroll deductions are subtracted.

Conversely, employees who are "exempt" employees under the FLSA cannot receive any overtime pay. This generally includes employees earning amounts over an established weekly threshold with jobs in executive, administrative or professional capacities. Typically, someone who serves as a company's president, CEO or other high-ranking position is salaried and classified as being exempt. Thus, many small business owners do not benefit from the FLSA overtime rules.

Similarly, workers who are classified as independent contractors are not entitled to overtime pay. This arrangement is often preferable to employers because they do not have to offer fringe benefits to the workers or pay the employer's share of payroll taxes on their compensation.

In any event, wages paid to employees—including OT amounts under the FLSA—are fully taxable, no questions asked.

New rules: Beginning in 2025, single filers can deduct up to \$12,500 of OT pay and \$25,000 for joint filers. This change is retroactive to wages earned on or after January 1, 2025. Caveat: The deduction is only available for the "premium" portion of overtime pay that is attributable to the time-and-a-half rate. Thus, in our previous example, the employee may deduct \$500 ($\25 premium $\times$ 20 hours) for the one week of overtime.

This deduction is phased out based on your modified adjusted gross income (MAGI). The phase-out begins at \$150,000 of MAGI for single filers and \$300,000 of MAGI for joint filers. Once you exceed the threshold, the deduction is reduced by \$100 for each \$1,000 above the threshold. So high-income employees may receive little or no tax benefit from this new rule. Note: These thresholds are not indexed for inflation.

What's more, the tax deduction for overtime pay is scheduled to expire after 2028, unless Congress extends it.

Significant impact: What does this all mean? For employers, it requires adjustments to payroll procedures reflecting the new rules and may trigger a thorough examination of the classification of independent contractors. For employees, it could result in an effective "raise" on their current pay. Do not hesitate to ask any questions about your situation.

New Threshold for Form 1099-NEC

Currently, an employer must file Form 1099-NEC when it pays an independent contractor \$600 or more during the year. Both the recipient and the IRS receive copies. This requirement has been on the books for more than 70 years without any change in the threshold or indexing.

Update: The One Big Beautiful Bill Act (OBBBA) lifts the threshold to \$2,000, beginning in 2026. Thereafter, it will be indexed for inflation in succeeding years. This may result in less "paperwork" for certain employers.

We will have more on the 1099-NEC changes and related provisions in the OBBBA in an upcoming issue.

Facts and Figures

Timely points of particular interest

IRS Audit Guides—Do you want to know what the IRS is looking for in an audit? The nation's tax collection agency has published dozens of "Audit Technique Guides" (ATGs) that provide insights into the main issues that interest auditors. Typically, the ATG is geared to a specific industry or tax issue, but taxpayers may also find general information that is helpful, please see link below.

Visit <https://www.irs.gov/businesses/small-businesses-self-employed/audit-techniques-guides-atgs> for more details.

Paper Chase—The U.S. Treasury Department recently announced that it will stop issuing paper checks for most federal payments on September 30, 2025. This includes payments for Social Security benefits, Veterans benefits and other federal benefits. If you have been receiving paper checks and have not yet done so, arrange to receive digital payments. You can access direct deposit by enrolling online at www.GoDirect.gov or by pursuing one of several other electronic-based options.

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