GUIDE

The 2025 tax law, and what it changes for you

The One Big Beautiful Bill, signed July 4, 2025, rewrote a lot of small business tax. The 20% QBI deduction is now permanent, 100% bonus depreciation is back, 1099s start at $2,000, and workers can deduct tips and overtime. Here's what changes on your 2025 and 2026 returns, and what to do about it.

QUICK FACTS

- **Signed.** July 4, 2025. The IRS now calls these provisions the Working Families Tax Cuts
- **QBI.** 20% deduction made permanent, with a $400 minimum from 2026
- **Equipment.** 100% bonus depreciation for property acquired after January 19, 2025
- **1099s.** $2,000 threshold for payments made in 2026 and later
- **Tips and overtime.** Deductions for workers from 2025 through 2028

Is the 20% QBI deduction staying?

Yes. The qualified business income deduction lets owners of sole proprietorships, partnerships, LLCs and S-Corps deduct up to 20% of their business profit. It was due to end after 2025. The new law made it permanent.

Two changes start in 2026. The income range where the limits phase in gets wider, to $75,000 for single filers and $150,000 for joint filers, so more owners of service businesses keep some of the deduction. And if you have at least $1,000 of qualified business income from a business you actively work in, your deduction is at least $400.

Can I write off equipment in year one again?

Yes. Bonus depreciation had been stepping down, to 40% for 2025. The new law brings back 100% bonus depreciation, permanently, for qualifying property acquired after January 19, 2025. Trucks, machinery, computers, shop equipment and most other business assets with a useful life of 20 years or less qualify.

General information, not tax advice for your situation.

RULE	BEFORE THE NEW LAW	NOW
Bonus depreciation	40% for 2025, falling to 0% by 2027	100%, for property acquired after January 19, 2025
Section 179 limit, 2025	About $1.25 million	$2.5 million, phasing out above $4 million of purchases

Writing it all off in year one isn't always the right call. If your income is low this year and higher later, spreading the deduction can save more. We run both ways before you buy.

What about software and research costs?

Since 2022, businesses had to spread research and development costs, including a lot of in-house software development, over five years. For tax years starting after 2024, domestic research costs can be deducted right away again. Foreign research is still spread over 15 years.

Small businesses with average gross receipts of $31 million or less can also go back and amend 2022 to 2024 returns to deduct costs they had to spread out. There are deadlines for those elections, so talk to us early if you build software.

Do I still send 1099s at $600?

Not for long. For payments you make in 2026 and later, you send Form 1099-NEC or 1099-MISC only when you paid someone $2,000 or more in the year, up from $600. The $2,000 figure starts rising with inflation in 2027. Payments made in 2025 still use the $600 threshold.

For card and app payments, Form 1099-K is back to the old rule. Payment processors file one only when you receive more than $20,000 and more than 200 transactions in a year, though some states use lower numbers. Our 1099 rules guide has the details.

What do the tips and overtime deductions mean for employers?

From 2025 through 2028, workers can deduct up to $25,000 of qualified tips and up to $12,500 of qualified overtime pay ($25,000 on a joint return) on their federal return. Both phase out above $150,000 of income, or $300,000 for joint filers.

Your employees claim the deductions, not you. But starting with 2026 pay, you report qualified tips and qualified overtime separately on each W-2, so your payroll has to track them. See our employer guide to tips and overtime.

What changed on owners' personal returns?

- The cap on deducting state and local taxes rose to $40,000 for 2025 and $40,400 for 2026. It shrinks for incomes above about $500,000 and drops back to $10,000 in 2030.
- People 65 and older get an extra deduction of up to $6,000 each from 2025 through 2028, phasing out above $75,000 of income, or $150,000 for joint filers.
- The lower individual tax rates from 2018 are now permanent.

If your state offers a pass-through entity tax election, it can still get state tax deducted at the business level. That often matters more than the new SALT cap for profitable LLCs and S-Corps.

What should you do before year-end?

1. Plan equipment purchases with 100% bonus depreciation in mind, and decide whether to take it all this year.
2. Collect a W-9 from every contractor now, so January 1099s are easy under either threshold.
3. If you have tipped staff or pay overtime, check that your payroll can split out qualified tips and the overtime premium for 2026 W-2s.
4. If you build software, ask whether amending 2022 to 2024 returns pays off.
5. Rework your quarterly estimates. Several of these changes lower the tax you owe for 2025.

Want a plan for this year?

We run your numbers and show you the options. Book a free 30-minute call at eminenttax.com/contact or call (972) 347-4590.

eminenttax.com

General information, not tax advice for your situation.