



CLIENTTELL

Vol. XXXI | No. 3 Fall 2025 | Blackburn, Childers & Steagall, PLC Quarterly Newsletter

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THE ONE BIG BEAUTIFUL BILL

BY THE BCS TAX DEPARTMENT

The One Big Beautiful Bill Act (OBBBA), signed into law on July 4, 2025, brings significant changes to tax rules affecting taxpayers and businesses alike. This landmark legislation includes key provision updates, many of which were scheduled to phase out under the previous law.

This article aims to provide an overview of the key provisions that will impact taxpayers and serves as a follow-up to the OBBBA tax implications summary we shared in our Summer 2025 Newsletter. We'll expand on the points introduced there and merge insights from recent blogs covering specific parts of the legislation.





indexed to inflation, improving planning over time.

Updates to the Child Tax Credit, Adoption Credit, and Dependent Care Benefits

The OBBBA introduces enhancements aimed at supporting families, particularly those with young children or dependents requiring care. These changes affect a range of tax benefits, including the Child Tax Credit (CTC), adoption credit, and dependent care incentives.

Child Tax Credit (CTC):

Beginning in tax year 2025, the CTC increases from \$2,000 to \$2,200 per qualifying child, with the refundable portion increasing from \$1,400 to \$1,700. Both amounts will be indexed for inflation starting in 2026. The credit continues to phase out at \$400,000 for joint filers and \$200,000 for all others. A valid Social Security number is required for both the filer and the child.

Adoption Credit:

The maximum credit for qualified adoption expenses increases to \$17,280, with \$5,000 refundable. Any unused nonrefundable portion may be carried forward for up to five years.

Dependent Care (Effective 2026):

Section 129 FSA contribution limits increase from \$5,000 to \$7,500, allowing families to set aside more pre-tax dollars for dependent care. Additionally, the dependent care credit can now cover up to 50% of qualifying expenses, with a two-tiered phaseout based on income, benefiting many middle-income families.

State and Local Tax (SALT) Deduction Gets a Boost

An anticipated change in the OBBBA is the increase to the deduction cap for state and local taxes (SALT). For taxpayers who itemize, the annual cap rises from \$10,000 to \$40,000 beginning in 2025. The cap will increase by 1% per year from 2026 through 2029 (e.g., \$40,400 in 2026). The cap is scheduled to revert to \$10,000 in 2030, unless extended by Congress.

This benefit is gradually phased out for high-income taxpayers. For individuals or couples with modified adjusted gross income (MAGI) above \$500,000, the

Given the broad and complex nature of the OBBBA, we will publish additional blogs that explore individual provisions in greater detail. These resources are designed to offer practical guidance and help you navigate the new tax landscape with confidence.

Whether you're encountering the OBBBA for the first time or have already begun exploring its details, this article is intended to give you a foundation for understanding the changes and how they may affect your personal or business tax planning.

Permanent Extension of Lower Tax Rates and Capital Gains Structure

An impactful component is the permanent extension of the lower individual income tax rates originally enacted under the Tax Cuts and Jobs Act (TCJA) of 2017. Before the TCJA, federal income tax brackets were structured at 10%, 15%, 25%, 28%, 33%, 35%, and 39%. The TCJA lowered those rates to a new structure—10%, 12%, 22%, 24%, 32%, 35%, and 37%—resulting in tax savings for individuals and families, particularly those in middle-income ranges. These lower rates would sunset after 2025 under TCJA law. The OBBBA makes the current bracket structure permanent, giving taxpayers greater certainty in planning for the years ahead.

In addition to preserving these rates, the Act updates how annual inflation adjustments are applied to the income thresholds that define each bracket. By using an enhanced indexing method, the legislation aims to limit the effects of "bracket creep," where taxpayers are unintentionally pushed into higher tax brackets due to inflation rather than realized increases in income.

The OBBBA also makes the current long-term capital gains tax structure permanent, retaining the 0%, 15%, and 20% rates. Like the ordinary income brackets, the income thresholds for these rates will now be

allowable SALT deduction is reduced by 30% of the excess income over that threshold. Once MAGI exceeds \$600,000 or more, the deduction is capped at \$10,000, effectively nullifying the enhanced benefit.

Qualifying SALT payments include state and local income taxes, real property taxes, personal property taxes, and sales taxes—including those paid on large purchases like cars, boats, or home renovations.

Example: Maria and Luis pay \$35,000 in SALT taxes and have a MAGI of \$475,000. They can fully deduct the amount. If their MAGI were \$575,000, the deduction would be reduced by \$22,500, leaving them with a \$17,500 deduction.

Charitable Contribution Updates Made Permanent

The OBBBA permanently enacts the TCJA's increase in the AGI limit for cash contributions to public charities—from 50% to 60%. This change offers greater opportunities for itemizing taxpayers who give generously.

Non-itemizers may now take an above-the-line deduction of up to \$1,000 (single) or \$2,000 (married filing jointly) for qualified charitable donations.

For itemizers, a 0.5% AGI floor must be exceeded before deductions apply. Once this floor is met, contributions are deductible up to the applicable limits (60% for cash, 50% for non-cash). Any excess may be carried forward for up to five years.

New Deduction for Vehicle Loan Interest (2025–2028)

The OBBBA introduces a temporary above-the-line deduction for interest paid on qualifying personal vehicle loans originating after December 31, 2024. Eligible taxpayers can deduct the interest even if they take the standard deduction.

To qualify, the vehicle must be new, with original use beginning with the taxpayer, and final assembly must occur in the United States. Pre-owned or leased vehicles are not eligible. The vehicle must be for personal use, weigh less than 14,000 pounds, and the vehicle's VIN must be reported on your return.

Taxpayers can deduct up to \$10,000 per year in qualified interest. The deduction phases out for single filers between \$100,000–\$150,000 MAGI and for joint

filers between \$200,000–\$250,000 MAGI.

Lenders must issue a Form 1098 if interest paid is \$600 or more. Notably, the deduction applies retroactively to qualifying loans made earlier in 2025, before the bill was signed into law on July 4, 2025. The deduction will expire after 2028, unless extended in the future.

Casualty Loss Deduction Expanded to State-Declared Disasters

Personal casualty losses are now deductible for both federally and state-declared disasters, expanding access to tax relief for individuals affected by natural events.

This change applies to tax years beginning after December 31, 2025, and the requirement that losses must stem from a declared disaster is now permanent.

Mortgage Interest Deduction and PMI Update

The mortgage interest deduction remains limited to the first \$750,000 of acquisition debt, with no reinstatement of the pre-TCJA \$1 million cap for new loans. Mortgages prior to December 16, 2017 are unaffected by this update.

Beginning in tax year 2026, taxpayers may again deduct private mortgage insurance (PMI) premiums on acquisition debt. The deduction is subject to an AGI phase-out between \$100,000 and \$150,000 (single) or \$200,000 and \$250,000 (joint).

Interest on home equity loans remains deductible only when proceeds are used to buy, build, or substantially improve a qualified residence, and the total loan amount remains within the \$750,000 limit.

Miscellaneous Deductions Eliminated, Educator Expenses Expanded

Miscellaneous itemized deductions subject to the 2% AGI floor are permanently eliminated. Disallowed expenses include investment advisory fees, tax prep costs, and unreimbursed employee business expenses.

Educator expenses are now allowed as an itemized deduction, not subject to the 2% floor. Teachers who itemize may now deduct more than the previous \$300 (single) or \$600 (joint) limit if their qualifying expenses exceed that amount.

The existing above-the-line deduction of \$300 (single) or \$600 (joint) remains available for non-itemizers and is now expanded to include coaching-related expenses and athletic equipment.

New Senior Deduction Provides Additional Relief for Taxpayers

Taxpayers aged 65 and older before the end of 2025 qualify for a new senior deduction of up to \$6,000 per individual (\$12,000 for married couples filing jointly). To be eligible, individuals must have a Social Security Number and a MAGI below \$75,000 (single) or \$150,000 (joint).

The deduction phases out starting at those income levels and completely phases out at \$175,000 (single) or \$250,000 (joint). For example, a single filer aged 70 with \$100,000 MAGI would have their deduction reduced by 25%, leaving them eligible for \$4,500.

This deduction is separate from the standard or itemized deductions and applies regardless of whether Social Security benefits are claimed. The provision is set to expire after the tax year 2028.

“No Tax on Tips” Deduction for Service Industry Workers

The OBBBA creates a new federal income tax deduction for up to \$25,000 in qualified tip income annually from 2025 through 2028. This benefit applies to both W-2 employees and independent contractors who report tips on forms 1099-K, 1099-NEC, or Form 4137.

The deduction is designed for occupations in which tipping is customary and frequent, such as those in the food service and hospitality industries. The IRS will publish a definitive list of qualifying jobs by October 2025, or within 90 days of the bill’s enactment.

Key Points:

- The deduction phases out for taxpayers with MAGI over \$150,000 (single) or \$300,000 (joint).
- Tips must be voluntary and not part of mandatory service charges or automatically included fees.
- Cash, credit card, and tip-sharing arrangements qualify.
- Payroll taxes (Social Security and Medicare) still

apply to tip income.

“No Tax on Overtime” Deduction for W-2 Employees

From 2025 through 2028, W-2 employees can claim a new deduction for qualified overtime wages, up to a \$12,500 ceiling per individual. The deduction phases out starting at MAGI of \$150,000 for single filers and \$300,000 for joint filers, disappearing entirely at \$275,000 (single) and \$550,000 (joint).

Employers are required to separately report overtime wages on W-2s to enable this deduction. The deduction applies only to compensation exceeding the regular rate of pay as defined by the Fair Labor Standards Act (FLSA).

IRS guidance is pending on whether self-employed individuals can claim similar benefits. At present, the deduction appears to be limited to W-2 employees.

QBI Deduction Made Permanent and Expanded Under OBBBA

The Qualified Business Income (QBI) deduction is made permanent starting in tax year 2026. Originally introduced by the TCJA, the QBI deduction allows eligible pass-through business owners to deduct up to 20% of their qualified business income, reducing taxable income and overall tax liability.

Eligible entities include sole proprietors, partnerships, S corporations, and LLCs—but not C corporations. A new provision under OBBBA is a minimum \$400 deduction (indexed for inflation) for taxpayers with at least \$1,000 in active QBI, ensuring even small business owners benefit.

Importantly, OBBBA expands the phase-in ranges for limitations tied to W-2 wages, qualified property, and specified service trades or businesses (SSTBs) like law, healthcare, and financial services. These phase-ins now begin at \$75,000 for single filers and \$150,000 for joint filers. They are still phased out at higher income levels, but they now benefit from a wider window before being excluded, allowing SSTB owners more income flexibility before phaseouts apply.

Expanded Business Expensing: Section 179 and Bonus Depreciation

Businesses can now claim higher deductions due to increased limits on Section 179 expensing and the reinstatement of 100% bonus depreciation. These tax incentives allow eligible assets to be fully (or primarily) expensed up front, rather than depreciated over several years.

- Section 179 expensing increased to \$2.5 million for qualifying property placed in service after December 31, 2024, phasing out dollar-for-dollar once purchases exceed \$4 million. Qualifying property includes tangible personal property, off-the-shelf software, and certain nonresidential improvements (roofs, HVAC, security systems).
- Bonus depreciation is reinstated at 100% for qualified property acquired and placed in service after January 19, 2025. Purchases between January 1 and January 19, 2025, follow the prior phase-down schedule (40% bonus depreciation). Property under binding contracts before January 20, 2025, is also subject to older rules.

Qualified property includes assets with a recovery period of 20 years or less, interior nonresidential improvements, and qualified production property.

Immediate Expensing of R&D Costs Under New Section 174A

Effective for tax years after December 31, 2024, businesses may now immediately expense domestic R&D costs—a significant shift from the previous Section 174A requirement to capitalize and amortize over five years under the TCJA.

Taxpayers still have the option to elect amortization, but foreign R&D costs must continue to be capitalized and amortized over 15 years. Software development costs, whether incurred domestically or abroad, are included under Section 174A and follow the same rules.

To ease the transition, OBBBA allows certain small businesses—those with average gross receipts of \$31 million or less—to retroactively apply full expensing to tax years beginning after 2021. Amended returns must be filed by July 4, 2026. Other taxpayers may deduct any unamortized domestic R&D costs in full in 2025, or spread the deduction over two years.

To prevent double-dipping, the amount of R&D



expenses deducted must be reduced by any Section 41 research credit claimed, unless a reduced credit is elected under Section 280C.

Gambling Loss Deduction Adjusted

Previously, taxpayers could deduct gambling losses only up to the amount of their gambling winnings and only if they itemized deductions. Beginning in 2026, taxpayers will be allowed to deduct only 90% of their gambling losses, still capped at the amount of their winnings.

For instance, if you won \$4,000 but lost \$4,000, you can deduct \$3,600 (90% of losses). If 90% of losses exceed winnings, the deduction is capped at the amount of winnings.

Taxpayers are still required to itemize deductions to claim gambling losses, and maintaining detailed records of wins and losses remains essential. This change could result in “phantom income,” where disallowed losses increase taxable income.

Example:

Jane won \$3,000 but lost \$4,000 in 2026. Under prior law, she could deduct only \$3,000 in losses, equal to her winnings. Under the new 90% rule, she can deduct \$3,000 (still capped at winnings), so no change. But if Jane’s winnings were \$4,000 and losses \$4,000, her deductible loss is \$3,600, reducing her taxable income by that amount. ♦



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Get Tax Ready With SafeSend

Unlock the Benefits of SafeSend: Secure, Convenient, and Flexible Tax Document Management

BY NICK HILL + WYATT PEARY

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Exciting News: We're Almost Home!

Construction is wrapping up, and the final touches are being made. We're thrilled to announce that our move-in date is just around the corner, and we will be fully settled into our new building in Gray by mid-November! This move marks a new chapter for our team, and we couldn't be more excited to share it with you. Thank you for your continued support during this transition. We look forward to welcoming you into our new home soon at **541 Sid Martin Road, Suite C, Johnson City, TN 37615**. Stay tuned for more information about our ribbon cutting and open house. ♦



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