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FINANCIAL SERVICES



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One Big Beautiful Bill

Presented by Chris Wittich

Thursday July 10th 2025

Agenda

General Individual Provisions

General Business Provisions

Targeted Tax Provisions

Planning and Practical Applications



Individual Tax Provisions

- Existing Individual Tax Rates are extended permanently, top rate of 37%. These are the joint tax brackets for 2025.
- 10% on the taxable income between \$0 and \$24k
- 12% on the taxable income between \$24k and \$97k
- 22% on the taxable income between \$97k and \$207k
- 24% on the taxable income between \$207k and \$394k
- 32% on the taxable income between \$394k and \$501k
- 35% on the taxable income between \$501k and \$751k
- 37% on the amount over \$751k taxable income

Individual Tax Provisions

- Standard Deduction will be \$15,750 for individuals and \$31,500 for joint taxpayers in 2025 (key changes to charitable contributions and the SALT cap will determine whether people itemize or claim the standard deduction)
- Personal Exemptions remain eliminated
- Senior deduction created that is \$6,000 for anyone over 65. Income phase out on that senior deduction at \$150k joint. Fully phased out at \$250k joint income. This is the “no tax on social security” idea. This is a new above the line deduction.
- Child Tax Credit modified from \$2,000 up to \$2,200 per child

Individual Tax Provisions

- Estate tax exemption increased to \$15M and indexed for inflation
- Mortgage interest limitation will remain at \$750k of qualified mortgage interest, mortgage insurance premiums are allowed as part of the deduction
- Extension of the limitations on casualty losses, but expanding the definition to include that state governors can declare disaster is eligible for casualty loss deduction.
- Gambling Losses were changed to only permit 90% of losses can be claimed. Gambling winnings of \$100k during some sessions and gambling losses of \$100k in other sessions will result in \$100k of income, and \$90k of losses being deducted as part of the itemized deduction. (MN AMT will also frequently apply to MN residents)

Individual Tax Provisions

- State and Local Tax Deduction was \$10,000 and it's increased to \$40,000 but with limitations. The \$40,000 deduction is phased back down to \$10,000 for taxpayers with modified AGI over \$500,000. At \$600,000 of modified AGI the taxpayer is back to the \$10,000 limit. Indexed for inflation over time.

Example

Wages	\$500,000
AGI	\$500,000
RE taxes	-\$10,000
State income tax	-\$30,000
Mortgage Interest	-\$25,000
Total Itemized incurred	-\$65,000
Itemized allowed	-\$65,000
Taxable Income	\$435,000
Tax Liability	\$93,326
Effective Rate	21.45%
Marginal Rate	32% bracket

Wages	\$600,000
AGI	\$600,000
RE taxes	-\$10,000
State income tax	-\$30,000
Mortgage Interest	-\$25,000
Total Itemized incurred	-\$65,000
Itemized allowed	-\$35,000
Taxable Income	\$565,000
Tax Liability	\$136,844
Effective Rate	24.22%
Marginal Rate	35% bracket

\$100,000 of income added resulted in \$43,518 increase in tax liability for the year

Individual Tax Provisions

- Deducting vehicle loan interest up to \$10,000 deduction for interest on loans used to acquire new domestically produced vehicles in 2025 or later. Phased out of taxpayers with MAGI over \$200,000 (\$100,000). This is not an itemized deduction, but a new above the line deduction.
- Trump accounts are an account for eligible children. Government will fund \$1,000 for children born after 12/31/24 and before 1/1/29. Contributions of \$5,000 per year can be made.
- Misc itemized deductions remain eliminated, limitation on itemized deductions for the 37% bracket taxpayers remains, AMT exemption remains
- Dependent Care Credit amount improved

Individual Tax Provisions

- Tax credit for contributions to scholarship granting organizations. \$1,700 contribution yields a \$1,700 credit for the individual taxpayer. Starting in 2027.
- 529 plan improvements included expanding the definition of qualified expenses for elementary and secondary school and expanding to include post secondary credentials like the CPA exam.
- Charitable deduction allowed for non-itemizers for cash contributions. \$1,000 for single and \$2,000 for joint. This is a new above the line deduction.
- Charitable deduction for those who do itemize now has a .5% of AGI floor starting in 2026 on the ability to deduct those contributions. \$200,000 AGI means the first \$1,000 of charitable contributions do not produce any benefit when itemizing. Similar to the 7.5% of AGI floor on medical expenses.

Business Tax Provisions

- Bonus Depreciation – 100% bonus depreciation allowed for after 1-19-2025
- Section 179 is now allowed up to \$2.5M per year for businesses with less than \$4M of new purchases
- Business Interest Limitation – Allows depreciation addback for ATI calc through 12/31/29.
- Business loss limitations under Section 461l retained, \$626k the maximum loss allowed for 2025, indexed for inflation

Business Tax Provisions

- Qualified Business Income (QBI) deduction was extended and remains at 20%. Phaseout range increased from \$100k to \$150k. The phaseout range only applies to an SSTB's ability to claim the QBI. Minimum deduction of \$400 added for business owners who materially participate.

Example

Business Income SSTB	\$500,000
AGI	\$500,000
Itemized incurred	-\$65,000
Itemized allowed	-\$65,000
QBI tentative	-\$100,000
QBI allowed	-\$73,333 (phaseout started)
Taxable Income	\$361,667
Tax Liability	\$72,494
Effective Rate	20.04%
Marginal Rate	24% bracket

Business Income SSTB	\$600,000
AGI	\$600,000
Itemized incurred	-\$65,000
Itemized allowed	-\$35,000 (lose \$30,000 SALT with higher income)
QBI tentative	-\$120,000
QBI allowed	- \$0 (fully phased out)
Taxable Income	\$565,000
Tax Liability	\$136,844
Effective Rate	24.22%
Marginal Rate	35% bracket

\$100,000 of income added resulted in \$64,350 increase in tax liability for the year

Targeted Tax Provisions

- Section 174 fix – Domestic research and experimentation expenditures are currently deductible in 2025. Foreign expenses still have a 15 year amort.
 - For small businesses (\$31M sales and less) they are allowed a retroactive fix for all impacted years. They can go back and file amended returns for 2022 and 2023 and 2024 if already filed. Election is required to choose this route.
 - All businesses have the choices of deducting the previously capitalized amounts in 2025 or splitting it and claiming half in 2025 and half in 2026.
 - All businesses could just let the 5 year amortization run its course
- Qualified Production Property (manufacturing property) – bonus depreciation for nonresidential real property used as an integral part of a qualified production activity. 100% deduction. Construction commenced after 1/19/25 before 1/1/29 and placed in service by before 1/1/31. Must be original use property, but it appears it could be an expansion of current manufacturing facility. *Further definition of what is qualifying property needed from IRS

Targeted Tax Provisions

- Extension and expansion of Opportunity Zones. Very complex rules related to OZ have become even more complex.
- Slight change to the definition of residential construction contracts for those using the Percentage of Completion accounting method could help multifamily construction builders in particular
- Qualified Small Business Stock Section 1202 improved and expanded for newly acquired stock. Asset limit for the company increased to \$75M. Initial investment limit went up to \$15M. 3 year holding yields a 50% exclusion. 4 year hold yields a 75% exclusion. 5 year hold yields a 100% exclusion.
- 1099-K reporting threshold changed to \$20,000 or 200 transactions
- 1099-NEC reporting threshold changed to \$2,000

Targeted Tax Provisions

- Energy Incentives terminated early, most are ok for 2025, but gone after that.
 - Section 179D terminated for any construction after June 30th 2026
 - 30% credit for solar or geothermal on your house gone starting in 2026
 - Residential energy credit for windows, doors gone starting in 2026
 - Clean vehicle credits
 - Clean vehicle production credits
 - New energy efficient home credit
- Excise Tax on certain remittance transfers is now 1%. This is transfers of money from non US residents to people in the US, some exceptions apply.
- Handful of tax changes for foreign situations including FTC, FDII, GILTI, BEAT

Targeted Tax Provisions

- Employee Retention Credit changes
 - Penalties for noncompliance increased
 - Statute of limitations increased to 6 years from date of refund or date of filing
 - No claims for Q3 or Q4 2021 after 1/31/2024 are eligible (moratorium is still in place anyways)
 - March 20th IRS released 3 FAQ on ERC
 - Reaffirmed the wage reduction should be in the year of the wages
 - If wages were not reduced, they can reduce in the year the ERC was received (tax benefit rule)
 - If wages reduced, claim later denied, taxpayer can amend or claim expense in the year of the denial

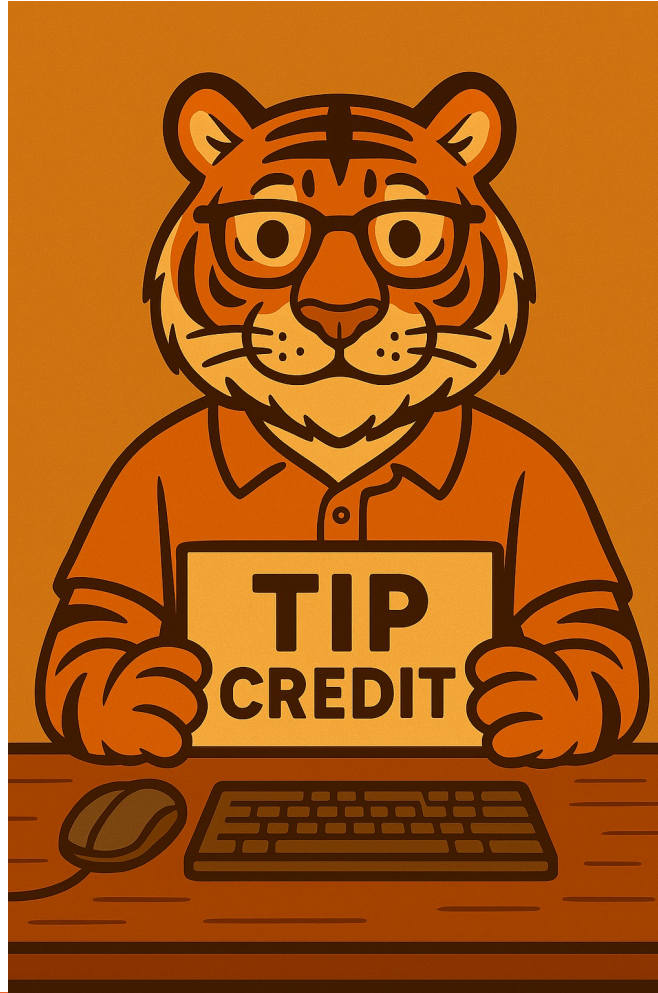
Targeted Tax Provisions

- No Tax on Tips – Allows \$25,000 deduction for taxpayers with MAGI less than \$150,000 (\$300,000 MFJ). Phaseout range of the \$25,000 deduction is \$250,000. So for a single individual it phases out between \$150k and \$400k. IRS to determine which industries have customarily received tips and publish the list. This is a new above the line deduction. * Unclear if a joint couple would each have a \$25,000 exclusion or if it would be \$25,000 total between the two.
- For years 2025 through 2028 (set to expire after that)
- Owners of the salon are eligible it appears
- “Qualified Tip”
 - Taxable to the individual
 - Must be voluntary (service charge doesn’t count)
 - Cash, Credit Cards, tip sharing arrangements all count
 - Tips have to be reported on the W-2 in Box 7 to count

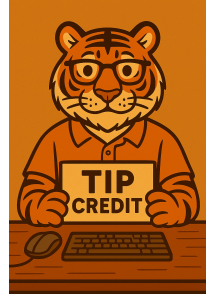
Targeted Tax Provisions

- No Tax on Overtime – Allows \$12,500 deduction for taxpayers with MAGI less than \$150,000 (\$300,000 MFJ). The deduction is only on the overtime premium. If employee is paid \$20 hourly base and \$30 for overtime hours. The deduction is only on the \$10 premium.
- Overtime pay is defined by the FLSA and consider your state specific guidance on overtime rates, who is paid hourly vs who is paid salary
- This does not overlap or include any qualified tip income
- Wages must be on W-2, a new notation will be required on the W-2s to indicate the amount of overtime pay

TIP CREDIT !!!



TIP CREDIT !!!



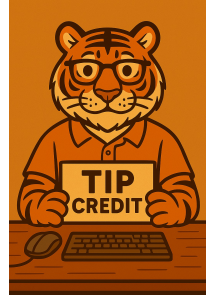
- Tip Credit expanded to include the beauty industry (barbering and hair care, nail care, esthetics, body and spa treatments). Previously tip credit only available to the food service industry.
- Stylist receives a \$100 tip the salon pays \$7.65 of FICA on it and adds the tip to their W-2. The salon incurs a cost because the customer chose to tip.
- Tip credit is equal to that \$7.65 FICA that the salon paid on the tip.
- Salon has \$1,000,000 of sales, and \$50,000 of tips. That's \$3,500 tip credit.
- Salon has \$1,100,000 of sales, and \$175,000 of tips. That's \$13,500 tip credit.
- Salon has \$2,500,000 of sales, and \$310,000 of tips. That's \$24,000 tip credit.
- Some salons we work with have tips of roughly 15% of the sales. Some salons are closer to 10% of the sales, still others are closer to 5% or below. A large difference exists between salons effectiveness at capturing tips.

TIP CREDIT !!!

- Claimed on Form 8846 (attached to S Corp / C Corp / Partnership return, or if filing a Schedule C the salon owner includes Form 8846 in their 1040 return).
- The tip credit flows through the entity and into the 1040 on Form 3800. It's in the 1040 where the tax savings are realized.
- Credit is a general business credit realized at the individual level
- Credit is non refundable (if you do not have a tax liability then you do not benefit at all)
- Credit can be carried back 1 year or forward 20 years
 - Carryback done on Form 1139
 - Must go back 1 year, then forward the 20 years until it is used up

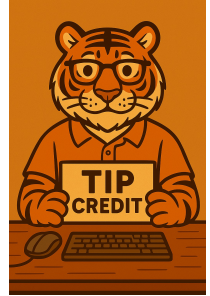


TIP CREDIT !!!



- Salon with \$1,000,000 of sales and \$100,000 of tips. Generates \$7,650 tip credit. 1 owner, S Corp, the owner works behind the chair and manages the business.
- Salon makes \$50,000 net income. Owner has W-2 of \$75,000 (\$50,000 salary + \$25,000 tips).
- Old Law: \$125k income less \$10k QBI deduction and \$15k standard deduction = \$100k taxable income. \$16,914 tax liability
- New Law: \$125k income less \$10k QBI deduction and \$15k standard deduction less \$25k tip deduction = \$75k taxable income. \$11,414 tax liability less \$7,650 tip credit = \$3,764 tax liability
- Total Savings from the \$25,000 tip deduction and the tip credit are \$13,150.

TIP CREDIT !!!



- Salon with \$1,000,000 of sales and \$100,000 of tips. Generates \$7,650 tip credit. 1 owner, S Corp, the owner works behind the chair and manages the business.
- Salon has a loss of \$15,000. Owner has W-2 of \$75,000 (\$50,000 salary + \$25,000 tips).
- Old Law: \$60k income less \$15k standard deduction = \$45k taxable income. \$5,162 tax liability
- New Law: \$60k income less \$15k standard deduction less \$25k tip deduction = \$20k taxable income. \$2,162 tax liability less \$7,650 tip credit = \$0 tax liability with a \$5,488 tip credit to carryback / carry forward.
- Total Savings from the \$25,000 tip deduction and the tip credit are \$5,162, with another \$5,488 to be carried back / carried forward.

RECAP Individuals

- Rates and many rules retained
- 5 new above the line deductions
 - Seniors (\$6,000)
 - Vehicle interest (\$10,000)
 - Charitable contributions (\$1,000 / \$2,000)
 - Tip income (\$25,000)
 - Overtime income (\$12,500 / \$25,000)
- 4 changes to itemized deductions
 - SALT Cap (\$40,000 phasedown to \$10,000)
 - .5% floor on charitable contributions
 - 90% of losses limit for gambling
 - Casualty loss rules, mortgage interest, top bracket limitations all retained
- Energy credits eliminated

RECAP Businesses

- Bonus depreciation 100% and Section 179 increased
- Qualified Manufacturing Property newly defined with 100% bonus depreciation
- Section 174 fixed and choices for taxpayers on how to recoup the capitalized amounts
- QBI phaseout relaxed slightly, but overlapping with SALT phaseout now
- QSBS stock expanded and made permanent
- Raising the thresholds for 1099-K and 1099-NEC reporting
- Increased ERC enforcement

Planning Thoughts

- Pay close attention to the dates the provisions begin or the tax provisions are eliminated. Some are 1-1-2025, some 1-19-2025, some 1-1-2026, some 6-30-2026 or 1-1-2027. Variety of implementation dates for all these changes.
- “Permanent” simply means until Congress changes the rules again. Inflation Reduction Act from July 2023 credits were permanent and now they’re all gone 2 years later.
- State conformity is a big deal for lots of these individual and business provisions, include that in your planning

Planning Thoughts

- Be especially careful about any individual taxpayer that's going to be in the \$500k to \$600k range of income, there can be huge swings in tax liability in that range with QBI phaseouts and SALT deduction phaseouts
- Plan now in the summer and pay special attention to the changes that will impact you, then update / finalize the plan later in the year when you have a better financial projection. For those who plan once a year, this is the time to plan twice a year.
- Second reconciliation bill in the fall a possibility to address other issues?
Second tax bill for the year to correct, cleanup the issues they created.

Planning Thoughts for salons

- Reconsider how the owners are being paid
- Reconsider your procedures for capturing tip information from the employees and inform them about the new tip deduction
- Reconsider hourly employees and overtime pay
- Work with payroll provider to be certain the tips are reported in the W-2 box 7 and the overtime pay is being captured so it can be reported separately on the W-2 (either box 12 or box 14)
- What would you do differently if you knew the tip credit was going to offset 100% of your federal income tax? (Retirement plan choices, Roth conversions, recognizing capital gains, how to invest, withholding on your wages, estimated tax payments during the year, charitable contributions, tax deductible choices)

Planning Thoughts for salons

- If you are the one who tells your CPA that your salon qualifies for the tip credit then you need a new CPA, one that knows something about the salon industry and stays up on the current tax law.
- If your CPA didn't read the bill closely enough to learn about the tip credit for salons, what else did they miss in the bill?
- www.salon.cpa for more information about how we work with Salons that want to grow and take control of their financial future

10 Tax Red Flags for Salons

1. No tip credit on income tax return
2. W-2 for any owners who are filing Form Schedule C or Partnership return
3. Vehicles with less than 50% business use
4. Multi-owner salon and distributions are not based on ownership percentage
5. Salon is paying for personal expenses
6. No monthly Profit & Loss statement
7. No estimated tax payments have been paid and there is a profit
8. Sales tax is not being reported or paid
9. No tax planning is done before year end
10. Not filing on time (including extensions)



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