



One Big Beautiful Bill Construction Industry Edition

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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 for the 2025-2028 years
- Child Tax Credit modified from \$2,000 up to \$2,200 per child in 2025

Individual Tax Provisions

- Estate tax exemption increased to \$15M and indexed for inflation for 2025
- 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. New rule begins in 2026. (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 for 2025 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, but expires after 2028.

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 starting in 2026.
- 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 so less businesses will be impacted by the interest limitation.
- 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	Business Income SSTB	\$600,000
AGI	\$500,000	AGI	\$600,000
Itemized incurred	-\$65,000	Itemized incurred	- \$65,000
Itemized allowed	-\$65,000	Itemized allowed	-\$35,000 (lose \$30,000 SALT with higher income)
QBI tentative	-\$100,000	QBI tentative	-\$120,000
QBI allowed	-\$73,333 (phaseout started)	QBI allowed	- \$0 (fully phased out)
Taxable Income	\$361,667	Taxable Income	\$565,000
Tax Liability	\$72,494	Tax Liability	\$136,844
Effective Rate	20.04%	Effective Rate	24.22%
Marginal Rate	24% bracket	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 amortization.
 - 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, IRS guidance still needed on how to make the election.
 - 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 (seems unlikely to be the best outcome)

Targeted Tax Provisions

- 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
- Has the potential to spur significant construction activities for manufacturing facilities. 100% write off for the whole building vs 39 year straight line depreciation is massive change

Targeted Tax Provisions

- Modified and expanded the definition of home construction contract. “Home construction contract” changed to now be “residential construction contract”. Also changed the definition to include 3 year projects instead of just 2 year projects. This definitional change only applies to contracts entered into in tax years beginning after the law passed (so 2026 year contracts basically)
- The changed definition means that larger residential projects like apartment buildings or condos with more than 4 units are now included. This allows contractors with those projects to use more advantageous accounting methods.
- Completed contract method is allowed for the residential construction projects, they are not forced to do percentage of completion.
- This change also applies to the specialty contractors if more than 80% of their work is on residential construction projects.

Targeted Tax Provisions

- Example of Residential Construction Contract rules:
 - Project started in January 2024, finished in October 2025 – POC required
 - Project started March 2025, finished June 2026 – POC required
 - Project started October 2025, finished June 2026 – POC required
 - Project started January 2026, finished March 2027 – Completed Contract allowed
- Condo with 40 units started in 2025 – POC required
- Condo with 40 units started in 2026 – Completed Contract allowed
- The change only applies to contracts that begin in 2026 (assuming calendar year taxpayer). Projects completed in 2025 do not qualify, projects started in 2025 do not qualify.

Targeted Tax Provisions

- Extension and expansion of Opportunity Zones. Very complex rules related to OZ have become even more complex.
- 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 gone June 30th 2026
- 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 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. In 2025 a transition year will allow any reasonable method to determine the overtime pay. W-2 reporting for the employers required in 2026.

RECAP Individuals

- Rates and many rules retained
- 5 new above the line deductions
 - Seniors (\$6,000)
 - Vehicle interest (\$10,000) in 2025
 - Charitable contributions (\$1,000 / \$2,000) in 2026
 - Tip income (\$25,000) in 2025
 - Overtime income (\$12,500 / \$25,000) in 2025
- 4 changes to itemized deductions
 - SALT Cap (\$40,000 phasedown to \$10,000) starting in 2025
 - .5% floor on charitable contributions starting in 2026
 - 90% of losses limit for gambling starting in 2026
 - Casualty loss rules, mortgage interest, top bracket limitations all retained for 2025
- Energy credits eliminated mostly in 2026

RECAP Businesses

- Bonus depreciation 100% and Section 179 increased
- Qualified Manufacturing Property newly defined with 100% bonus depreciation
- Section 174 fixed and different 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 roughly 2 years later.
- State conformity is a big deal for lots of these individual and business provisions, carefully 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.

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