2025 Tax Update and the OBBBA for Businesses

The 2025 tax year marks a significant shift in business taxation. The One Big Beautiful Bill Act (OBBBA or 2025 Act), signed July 4, 2024, makes several expiring provisions permanent, expands key deductions, and updates rules that impact capital investment, R&D, interest limitations, and overall cash flow planning.

The tax rate for C Corporations remains a flat 21%. While the reduced rate helps alleviate some of the tax burden of these entities, C Corporations continue to face double taxation, with taxes paid once at the entity level and again when dividends are paid to shareholders.

Many businesses are not taxed at the entity level as corporations; instead, taxable profits and losses pass through to their owners and are taxed at individual rates. With marginal rates reaching 37%, plus potential exposure to the 3.8% net investment income tax, thoughtful tax planning plays a key role in managing the total tax burden for business owners.

The information contained within this tax update is based on federal laws and policies in effect as of the publication date. The tax information provided focuses primarily on federal tax planning strategies. If you live or do business in a state with a separate state and/or local income tax or own foreign assets, additional planning may be necessary. Cunningham & Associates is available to help advise you on making tax and financial decisions regarding any of the items on the following pages.

Key OBBBA Provisions for 2025

- **100% Bonus Depreciation Made Permanent.** Under prior law, bonus depreciation phased down by 20% per year, reaching 0% after 2026. With the 2025 Act, businesses can immediately expense qualifying equipment and machinery placed in service after January 19, 2025, creating powerful cash-flow and reinvestment opportunities.
- **"New" 100% Expensing of Qualified Production Property (QPP).** New rules allow 100% bonus depreciation for certain production related real property if construction begins after January 19, 2025, and the property is placed in service before January 1, 2031
- **Increased Section 179 Expensing Limits.** The Section 179 expense limit increases to $2.5 million, up from previously $1 million.
- **Qualified Business Income (QBI) Deduction Made Permanent.** The 20% QBI deduction under IRC § 199A is now permanent, and in 2026, adds a new minimum deduction and expanded thresholds.
- **Research and Development Costs Immediate Expensing.** OBBBA restores immediate expensing for domestic research and development costs including software development, with an option to elect amortization over at least five years. Foreign R&D costs must still be amortized over 15 years.

Other 2025 Tax Highlights

Aligning tax strategy with benefits, structure, and asset planning can reduce taxes and improve financial results.

Benefits & Retirement Planning

Offering competitive benefits can deliver tax advantages while strengthening recruitment and retention. Employer contributions to retirement plans are deductible, and small employers may qualify for startup credits when establishing plans. Reviewing plan structure at year-end helps ensure both owners and employees are maximizing tax-advantaged savings, while keeping benefit costs aligned with business goals. See attached for additional information.

Health Savings Accounts (HSAs)

High-deductible health plans (HDHPs) paired with HSAs can reduce premiums and create payroll tax savings. Employer contributions are deductible and not subject to payroll taxes, and funds belong to the employee and roll over each year. For 2025, contribution limits are $4,300 for individual coverage and $8,550 for families, plus a $1,000 catch-up for those age 55 or older.

Flexible Spending Accounts (FSAs)

FSAs allow employees to use pre-tax payroll deductions for eligible medical or dependent care costs while reducing employer payroll tax expense. They enhance the benefits package at relatively low cost but require monitoring of contribution limits and compliance with nondiscrimination rules to avoid penalties.

Retirement Plan Contributions

Updated contribution limits create planning opportunities for 2025. Employees may defer up to $23,500 into a 401(k) plan, with an additional $7,500 catch-up for individuals age 50 or over. SIMPLE and SEP IRAs also provide flexible funding options depending on business size and cash flow.

SECURE Act 2.0

The SECURE Act 2.0 expands retirement access and participation: automatic enrollment for new plans, optional Roth employer contributions, student loan matching, enhanced startup credits, and higher catchups for ages 60–63 in 2025. High earners must make Roth catch-ups starting in 2026.

Meals & Entertainment

The deduction for meals and entertainment depends on purpose: 100% for certain employee events and meals for the public, 50% for most business meals, 0% for entertainment. Most employer-provided meals become non-deductible in 2026, making Chart of Accounts updates important.

Pass-Through Entity Planning

Partnerships and S corporations operate under different rules for compensation, basis, and loss deductions. S corporation owners must take reasonable wages before distributions. Partnerships pay owners via guaranteed payments or profit allocations, and debt basis can impact loss deductibility. Year-end review should focus on wages vs. distributions, basis, and documentation.

Rental Real Estate

Loss deductibility depends on activity classification: passive, active participation, or material participation. Active participation may allow up to $25,000 of losses if income is below phase-out thresholds, while material participation or real estate professional status may allow full deductibility. Rentals may qualify for the QBI deduction if they rise to the level of a trade or business.

Hiring Family Members

Employing family members can shift income to lower tax brackets and reduce payroll taxes. Children under age 18 working for a parent-owned sole proprietorship or partnership may be exempt from FICA taxes, and wages up to $15,750 may be sheltered by the standard deduction in 2025. Documentation and reasonable compensation are essential to withstand IRS review.

Qualified Opportunity Zones (QOZs)

Investing capital gains in a Qualified Opportunity Fund within 180 days allows tax deferral, and a holding period of 10 years may eliminate tax on appreciation. The program is now permanent, and enhanced benefits exist for certain rural or disaster-area funds. QOZ investments can be a strategic tool following the sale of real estate, securities, or business interests.

1031 Like-Kind Exchanges

A properly executed like-kind exchange allows taxpayers to defer gain on the sale of business or investment real estate when reinvested into another qualifying property. Strict timelines apply: 45 days to identify replacement property and 180 days to close. A qualified intermediary must be involved, and state conformity should be reviewed to avoid unexpected tax exposure.

State and Local Tax Planning

State conformity varies on items like bonus depreciation, business interest limits, and PTE elections; reviewing multi-state exposure now can prevent surprises and uncover planning opportunities. See attached for more information.

Additional Resources: Cunningham Wealth Management

Cunningham Wealth Management, our affiliated fee-based investment advisor, helps clients build tax-efficient financial plans and portfolios. This season, we invite you to a complimentary consultation to discuss your goals and explore strategies tailored to your financial needs.

Next Steps

Every business is unique, and the right combination of strategies can meaningfully improve tax outcomes and cash flow. We welcome the opportunity to help you prioritize the planning ideas that best align with your goals.

Benefits, Retirement, and SECURE Act 2.0 – Quick Reference (2025)

Strategic use of benefits and retirement plans can reduce taxable income, improve employee retention, lower payroll expenses, and enhance cash flow. Several 2025 rule changes and SECURE Act provisions create opportunities to revisit plan design before year-end.

Health & Fringe Benefit Options

- Health Savings Accounts (HSAs): Tax-deductible employer contributions; not subject to payroll tax.
- 2025 HSA limits: $4,300 self-only | $8,550 family | +$1,000 catch-up age 55+.
- High-Deductible Health Plans (HDHPs): Typically lower premiums; pairs well with HSA strategy.
- Flexible Spending Accounts (FSAs): Pre-tax employee contributions; employer may contribute within limits.
- FSAs reduce payroll taxes and enhance benefits but must follow IRS nondiscrimination rules.

Retirement Plan Funding Benchmarks (2025)

Plan Type	Employee Deferral	Catch-up (50+)	Special Catch-Up (60–63)	Employer Contribution	Total Annual Limit
401(k)	$23,500	$7,500	$11,250	Up to $70,000 combined	$70,000
SIMPLE IRA	$16,500	$3,500	$5,250	3% match/2% nonelective	Varies by funding
SEP IRA	N/A	N/A	N/A	25% of comp or $70,000	$70,000

SECURE Act 2.0: Key Provisions Businesses Should Note

- Automatic enrollment required for new plans established after December 31, 2024.
- Up to $250 incentives allowed to boost enrollment participation.
- Student loan payments may qualify for employer matching contributions (2025 impact).
- Startup plan tax credits may cover up to 100% of initial plan costs for small employers.
- Employer contributions may be designated as Roth (taxed now, tax-free later).
- Higher catch-up limits for ages 60–63 start in 2025.
- Catch-up contributions for high earners ($145,000+) must be Roth beginning 2026.
- Penalty-free emergency withdrawals allowed starting 2024 (plan-by-plan basis).

Review these areas annually to confirm plan design remains aligned with tax strategy, cash flow goals, and employee needs.

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State And Local Tax Planning – Quick Reference

As you prepare for year-end, it is important to consider several key state and local tax (SALT) issues that may impact your business in 2025. Recent legislative changes, including the 2025 Act, have introduced new planning opportunities and compliance requirements. Below are several important items to review as part of your year-end planning process:

- **State Tax Nexus and Economic Nexus:** States continue to expand their definitions of tax nexus, which determines whether your business must file and pay taxes in a particular state. In addition to physical presence, many states now impose tax obligations based on economic activity, such as sales into the state, even if your business has no physical operations there.
- **Bonus Depreciation Decoupling:** The 2025 Act made 100% bonus depreciation permanent for certain property at the federal level. However, not all states conform to this federal provision. Some states require adjustments or do not allow bonus depreciation, which may affect your state taxable income and require additional calculations.
- **Pass-Through Entity (PTE) Tax Elections:** Many states now offer elective entity-level taxes for partnerships and S corporations. These elections can help owners maximize their state tax deductions at the federal level, especially in light of the increased federal SALT deduction cap for 2025 and 2026. It is important to review the rules and potential benefits of these elections in each state where your business operates.
- **Apportionment and Combined Reporting Changes:** Some states are changing how they calculate the portion of income subject to tax. These changes can affect the amount of income taxed in each state, particularly for businesses operating in multiple states.
- **State Conformity to Federal Law:** States vary in how they adopt federal tax law changes. Some automatically conform to new federal rules, while others require legislative action. The 2025 Act's changes—including bonus depreciation and expanded expensing—may not be adopted in all states, so it is important to confirm the rules in each relevant jurisdiction.
- **Estimated Tax Payments and Compliance**: Changes in state tax law or elections, such as the PTE tax, may affect your estimated tax payment requirements and compliance obligations. Be sure to review any new forms or schedules required for 2025 filings.

We recommend reviewing your business's activities and state filings to ensure compliance and to take advantage of available planning opportunities. If you have questions about how these changes may affect your business, please let us know—we are here to help you navigate these evolving state and local tax rules.