

2025 Tax CPE Training

December 10, 2025

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- As required by our CPE program sponsor organization, for attendance tracking purposes, we will be displaying 4 polling questions per 50-minute CPE credit hour on your screen throughout the duration of this presentation (16 polling questions total for this seminar).
- **You must answer at least 12 out of the 16 polling questions to receive full CPE credit.**
- If your submission does not go through properly, please send in a chat right away to let us know what your response was.

MEET OUR PRESENTERS



Sherry Cracium-Bolin,
CPA
Tax Principal



Randy Fackler,
CPA, CEPA, MST
Principal and
Tax Director



Matthew Fox,
CPA
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Jason Skrinak,
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AGENDA

- **Individual Tax Updates:** Sherry Cracium-Bolin / Matthew Fox
- **Business Tax Updates:** Ryan Hastings / Matthew Fox
- **Reasonable Compensation:** Mary Kay Toth
- **15-Minute Break**
- **Research and Development (R&D) Tax Credit:** Patrick Rogers
- **Pennsylvania State and Local Tax (SALT) Update:** Jason Skrinak
- **Maryland Tax Updates:** Sherry Cracium-Bolin
- **Legislative Forecasting:** Randy Fackler

Individual Tax Updates



Sherry Cracium-Bolin, CPA
Tax Principal



Matthew Fox, CPA
Tax Principal

***“There is nothing
permanent except change.”***

— Heraclitus, Greek philosopher

PERMANENT TAX CUTS

- **Prior Law:** Lowered rates expired end of 2025.
- **The OBBBA:** Lowered rates made permanent and all brackets continue to be indexed for inflation after 2025. Expands the 10% and 12% brackets with additional year of inflation adjustments.
- **Seven Brackets:** 10%, 12%, 22%, 24%, 32%, 35%, 37%
- **Planning Point:** With lower tax brackets made permanent, this may allow for opportunities to strategically manage income and consider strategies like Roth conversions while in the lower tax brackets.

PERMANENT TAX CUTS

- **Prior Law:** Increased standard deduction expired end of 2025 and personal exemptions suspended 2018-2025.
- **The OBBBA:** Permanently increases the standard deduction and permanently terminates deduction for personal exemptions.
- **2025 Standard Deduction:**
 - ✓ **Single & Married Filing Separate:** \$15,750
 - ✓ **Married Filing Jointly:** \$31,500
 - ✓ **Head of Household:** \$23,625

PERMANENT TAX CUTS

- **Prior Law:** \$2,000 child tax credit reduced to \$1,000 after 2025. Non-refundable \$500 other dependent credit expired after 2025.
- **The OBBBA:** Permanently increases the child tax credit to \$2,200 beginning in 2025 and indexes the credit for inflation, including the refundable portion. Makes \$500 other dependent credit permanent. Increased the income phaseout threshold amounts for child tax credit and other dependent credit.
- **2025 Phaseout Thresholds Begin:**
 - **Single & Head of Household:** \$200,000
 - **Married Filing Joint:** \$400,000

“NO TAX ON TIPS”

- Allows up to \$25,000 deduction for qualified tips in certain occupations.
- List of occupations to be provided by October 2, 2025-employers will be required to provide occupation on forms (W-2 or 1099).
- Qualified tips are voluntary cash or charged tips from customers or through tip sharing.
- Must be reported on a Form W-2, Form 1099 or other specified statements furnished to the individual or reported on Form 4137.
- Self-employed individuals in a Specified Service Trade or Business do not qualify.
- Must file joint return, if married.
- Deduction phases out for taxpayers with modified AGI of \$150,000 (single) / \$300,000 (joint).
- Temporary (2025 - 2028).
- Updates:
 - Proposed regulations issued identifying about 70 occupations that qualify
 - IRS will provide transition relief for tax year 2025

“NO TAX ON OVERTIME”

- Allows up to \$12,500 (single), \$25,000 (joint) deduction for qualified overtime compensation.
- Qualified overtime compensation is amount that exceeds their regular rate of pay (half portion or time-and-a-half” portion) this is required by FLSA.
- Must be reported on a Form W-2, Form 1099 or other specified statements furnished to the individual.
- Employers will be required to file information returns with the IRS and provide statements to employees showing the amount of qualified overtime compensation paid during the year.
- Must file joint return, if married.
- Deduction phases out for taxpayers with modified adjusted gross income (MAGI) of \$150,000 (single) / \$300,000 (joint).
- Temporary (2025 - 2028).
- Updates:
 - No changes made to Forms W-2 and 1099 for 2025 tax year
 - IRS will provide transition relief for 2025 tax year

“NO TAX ON SOCIAL SECURITY”

- Provides an additional senior deduction of \$6,000 per eligible individual age 65 or older (by end of year).
- If both spouses are eligible, the additional deduction is \$12,000.
- Phases out when MAGI over \$75,000 (single) / \$150,000 (joint).
- Must file joint return, if married.
- Temporary (2025 - 2028).

CAR LOAN INTEREST

- **Prior Law:** No deduction for car loan interest (personal use).
- **The OBBBA:** Creates a new “above-the-line” deduction (2025 - 2028).
- Maximum deduction is \$10,000.
- Phases out when MAGI over \$100,000 (single) / \$200,000 (joint).
- Vehicle must be for personal use; must be new & final assembly must be in United States (VIN must be reported).
- Loan must be secured by the vehicle (lenders must file information returns and furnish statements to taxpayers).

SCHEDULE 1-A (Form 1040)

Additional Deductions

OMB No. 1545-0074

2025

Attachment Sequence No. 1A

Department of the Treasury Internal Revenue Service

Attach to Form 1040, 1040-SR, or 1040-NR. Go to www.irs.gov/Form1040 for instructions and the latest information.

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

Your social security number

Part I Modified Adjusted Gross Income (MAGI) Amount

Table with 3 columns: Line number, Description, and Amount. Lines 1-3 for MAGI calculation.

Part II No Tax on Tips

Caution: Fill out Part II only if you received qualified tips. These tips must have been received in an occupation listed at IRS.gov/TippedOccupations. You and/or your spouse who received qualified tips must have a valid social security number to claim the deduction. If married, you must file jointly to claim this deduction. See instructions.

Table with 3 columns: Line number, Description, and Amount. Lines 4-13 for No Tax on Tips calculation.

Part III No Tax on Overtime

Caution: Fill out Part III only if you received qualified overtime compensation. You and/or your spouse who received the qualified overtime compensation must have a valid social security number to claim this deduction. If married, you must file jointly to claim this deduction. See instructions.

Table with 3 columns: Line number, Description, and Amount. Lines 14a-21 for No Tax on Overtime calculation.

DRAFT - DO NOT FILE

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Schedule 1-A (Form 1040) (2025)

Page 2

Part IV No Tax on Car Loan Interest

Caution: Fill out Part IV only if you, or your spouse if married filing jointly, paid or accrued qualified passenger vehicle loan interest (QPVLI). Column (iii) is the total QPVLII paid in 2025 less the amounts reported in column (ii). See instructions.

Table with 3 columns: (i) Vehicle identification number (VIN), (ii) Deducted on Schedule C, Schedule E, or Schedule F, and (iii) Schedule 1-A. Lines 22-30 for No Tax on Car Loan Interest calculation.

Part V Enhanced Deduction for Seniors

Caution: You and/or your spouse must have a valid social security number. If married, you must file jointly to claim this deduction. See instructions.

Table with 3 columns: Line number, Description, and Amount. Lines 31-37 for Enhanced Deduction for Seniors calculation.

Part VI Total Additional Deductions

Table with 3 columns: Line number, Description, and Amount. Line 38 for Total Additional Deductions.

DRAFT - DO NOT FILE

STATE & LOCAL TAX DEDUCTION

- **Prior Law:** \$10,000 cap set to expire after 2025.
- **The OBBBA:** Increases cap to \$40,000 for 2025. Increases 1% annually through 2029 and reverts to \$10,000 beginning 2030.
- **Phaseout:** Begins when MAGI exceeds \$500,000 in 2025 (also increases 1% annually through 2029). Deduction reduced by 30% of amount taxpayer's MAGI exceeds threshold, but never reduced below \$10,000.
- **Planning Point:** Pass-through business owners in high-tax states should evaluate benefits of electing a pass-through entity tax (PTET) to bypass this cap and MAGI limitation.

NEW DEDUCTION LIMIT

- Replaces the “Pease Limitation” with new itemized deduction limitation.
- Impacts taxpayers who itemize and have taxable income exceeding the start of the 37% tax rate bracket:
 - **Single & Head of Household:** \$626,351
 - **MFJ:** \$751,601
 - **MFS:** \$375,801
- Reduced by $\frac{2}{37}$ (or 5.4%) of amount exceeding threshold.
- Effective starting in 2026.

CHARITABLE CONTRIBUTIONS

- Creates deduction for non-itemizers:
 - Must be a cash contribution
 - \$1,000 Single / \$2,000 Married Joint
- Makes 60% of AGI limit for cash contributions permanent.
- Further limits the charitable deduction for taxpayers who itemize - 0.5% of AGI reduction to otherwise deductible amounts.
- These provisions are effective starting in 2026.
- **Planning Point:** Taxpayers in the 37% tax bracket may want to consider maximizing charitable contributions in 2025, through bunching or donor advised funds, due to this AGI floor and previously mentioned itemized deduction limitation.

LOST DEDUCTIONS

The OBBBA permanently terminates:

- Casualty loss deductions (unless federally declared disaster)
- Miscellaneous itemized deductions
- Moving expense deduction

The OBBBA permanently limits:

- Mortgage acquisition indebtedness (\$750,000 mortgage)
- Home equity interest deduction (buy, build, improve home)
- Gambling losses – 90% of losses and itemized only (starting in 2026)

TRUMP ACCOUNTS

- Establishes tax-deferred savings accounts for minors.
- Type of individual retirement account (IRA).
- Contributions to be made in calendar years prior to turning 18 years old.
- Contributions capped at \$5,000 per year but are NOT deductible.
- No contributions allowed until 12 months after the enactment of H.R. 1.
- Employers may make contributions which will NOT be includible in taxable compensation.
- Credit up to \$1,000 available when opening an account for a child born 2025-2028.
- Type of investment is restricted (mutual funds/ETFs).
- Distributions not allowed until age 18.
- Update: On December 2, 2025, the IRS and Treasury issued Notice 2025-68, which contained information on how families can opt in and also announces upcoming proposed regulations

RELATED PROVISIONS

- Estate and Gift tax exemption increases to \$15 million per person instead of reverting to \$5 million after 2025 and will become permanent with inflation adjustments after 2026.
- Alternative Minimum Tax exemption is made permanent at higher levels indexed for inflation but steepens the phase-out for those with income exceeding \$626,350 single; \$1,252,700 joint.
- Makes a portion of the adoption credit refundable, up to \$5,000 and adjusted for inflation.
- Expands eligible 529 plan expenses, including professional credentials.

Individual Tax Updates Q&A

Business Tax Updates



C. Ryan Hastings, CPA, CVA, CEPA
Tax Principal



Matthew Fox, CPA
Tax Principal

OBJECTIVES

- Provide an update of Business Tax changes for 2025.
- Review the OBBBA's business-related tax changes.
- Compare old (TCJA) and new provisions.
- Identify planning opportunities to optimize tax outcomes.

BONUS DEPRECIATION

- **Old Law (TCJA):**
 - Allowed 100% bonus depreciation for qualified property through 2022, phasing down to 40% in 2025, 20% in 2026, and 0% in 2027.
 - Applied to tangible personal property with a recovery period of 20 years or less and certain real estate improvements.
- **New Law (the OBBBA):**
 - Permanently restores 100% bonus depreciation for qualified property acquired and placed in service after January 19, 2025.
 - Expands scope to include manufacturing buildings placed in service before January 1, 2031 (Code Section 168(n)).
- **Impact:** Encourages immediate capital investment by allowing full expensing, reducing taxable income in the year of purchase.

BONUS DEPRECIATION

- 100% Bonus Depreciation is now the general default for qualifying property acquired after January 19, 2025
- **Transitional Election:**
 - Taxpayers can elect 40% bonus depreciation (in lieu of 100%) for qualifying property placed in service during that first taxable year.
 - This election is optional, so taxpayer can choose not to make it, and go with 100% bonus depreciation
- **Why Elect?**
 - Flexibility for tax planning – some businesses may not want the full 100% loss due to basis, NOL, and tax rate planning issues.
 - Transitional ease – simplifies calculations

DEPRECIATION FOR QUALIFIED PRODUCTION PROPERTY

Code Section 168(n):

- Provides an elective 100% bonus depreciation deduction for qualified property placed in service before January 1, 2031.
- Defines qualified production property to include any portion of non-residential real property used as an integral part of qualified manufacturing, agricultural or chemical production, or refining a qualified product that results in a substantial transformation of the product (most manufacturing).

PRODUCTION PROPERTY (cont'd)

- **Exclusions:**
 - Non-residential property real property used for functions unrelated to manufacturing, production or refining of qualified products.
 - Any food or beverage prepared in the same building as a retail establishment in which it is sold.
 - Property used by a lessee is not considered to be used by the lessor as part of a qualified production activity.
- Additional requirements apply to acquired property not previously used in qualified production activities.
 - Such property cannot have been used in a qualified production activity by any person at any time for the period beginning January 1, 2021, and ending on May 12, 2025.
 - Such property was not used by the taxpayer at any time prior to such acquisition.
- **Effective Date:** Applies to property placed in service after July 4, 2025, but before January 1, 2031, construction of which begins after January 19, 2025, but before January 1, 2029.

SECTION 179 EXPENSING

- **Old Law (TCJA):**
 - Set the maximum amount of Section 179 property that a taxpayer can expense at \$1.25 million, reduced the amount by which the cost of \$179 property exceeds \$3.05 million
- **New Law (the OBBBA):**
 - Sets the maximum amount of Section 179 property that a taxpayer can expense at 2.5 million, reduced by the amount by which the cost of \$179 property exceeds \$4 million.
 - Applies to property placed in service in taxable years beginning after December 31, 2024.
- **Impact:** Encourages immediate capital investment by allowing full expensing, reducing taxable income in the year of purchase.

ACCELERATED DEPRECIATION PLANNING CONSIDERATIONS

- Section 179 depreciation cannot create a business loss, whereas bonus depreciation can.
- State treatment of bonus depreciation and Section 179.
- Considerations of debt to acquire certain depreciable assets.
- Considerations of future taxable income when making these decisions.

SECTION 163(J) BUSINESS INTEREST DEDUCTION

- **Old Law (TCJA):**
 - Limited business interest deductions to 30% of adjusted taxable income (ATI), initially based on EBITDA (through 2021), then EBIT (2022 onward), making it less generous.
- **New Law (the OBBBA):**
 - Permanently reinstates EBITDA-based ATI calculation for tax years beginning after December 31, 2024.
 - Expands deductible interest for floor plan financing.
 - Removes bonus depreciation conflict. Businesses that deduct floor plan financing interest may still claim 100% bonus depreciation
- **Impact:** Benefits capital-intensive businesses and leveraged businesses by increasing allowable deductions for interest expense.

QUALIFIED BUSINESS INCOME DEDUCTION

- **Old Law (TCJA):**
 - For tax years beginning in 2018 through 2025, allowed non-corporate taxpayers with pass through business income a deduction from ordinary income equal to the lesser of 20% (1) of QBI earned in a qualified trade or business, plus 20% of qualified REIT dividends; or 20% of the taxpayer's taxable income minus net capital gain.
 - Subjected QBI earned in a qualified trade or business to certain phase-in limitations, depending on the amount of W-2 wages paid by the qualifying business and whether the QBI was earned in a specified service trade or business.
- **New Law (the OBBBA):**
 - Permanently extends the 20% deduction for QBI, increases phase-in limitations and adds an inflation-adjusted minimum deduction of \$400 for taxpayers with at least \$1,000 of qualifying income from active qualified trade or business.
 - Applies to taxable years beginning after December 31, 2025.

LIMITATIONS ON EXCESS BUSINESS LOSSES OF NONCORPORATE TAXPAYERS

- **Old Law (TCJA):**
 - Temporarily disallowed a deduction for “excess business losses” of non-corporate taxpayers for taxable years 2021 through 2028.
 - Defined excess business loss as the excess of a taxpayer’s aggregate business deductions over the aggregate business income plus \$250,000 (\$500,000 for a joint tax return).
 - Required amount disallowed to be carried forward and treated as part of NOL carryovers in succeeding years.
- **New Law (the OBBBA):**
 - Permanently extends the disallowance of a deduction for excess business losses.
 - Indexes the \$250,000 for inflation for taxable years beginning after December 31, 2025.
 - Retains treatment as NOL carryover.

SMALL BUSINESS STOCK GAIN EXCLUSION

- **Old Law (TCJA):**
 - Provided an exclusion from gain on sale of qualified small business stock (QSBS) held for more than 5 years.
 - For QSBS acquired after September 27, 2010, the exclusion was 100%. For QSBS acquired before September 27, 2010, the exclusion was between 50% and 75%. The per issuer limitation was \$10 million.
- **New Law (the OBBBA):**
 - Introduces tiered gain exclusion based on holding period for QSBS stock issued after July 4, 2025:
 - **Held 3+ years:** 50% of capital gains can be excluded.
 - **Held 4+ years:** 75% of capital gains can be excluded.
 - **Held 5+ years:** 100% of capital gains can be excluded.

SMALL BUSINESS STOCK GAIN EXCLUSION (cont'd)

- The per-taxpayer, per-issuer gain exclusion cap increased to \$15 million from \$10 million.
- The maximum gross assets a corporation can have to qualify as a QSB increased to \$75 million from \$50 million. This is also indexed for inflation starting in 2026.

CLEAN ENERGY INCENTIVES

Several clean energy incentives are being phased out or eliminated, as outlined in the chart below:

Section	Name	Termination Date
25E	Previously owned clean vehicle credit	After September 30, 2025
30D	Clean vehicle credit	After September 30, 2025
45W	Qualified commercial clean vehicle credit	After September 30, 2025
6426(k)	Sustainable aviation fuel credit	After September 30, 2025
25C	Energy-efficient home improvement credit	After December 31, 2025
25D	Residential clean energy credit	After December 31, 2025
168 (e)(3)(B)(vi)	Cost recovery for certain energy property and qualified clean energy facilities, property and technology	After December 31, 2025 (energy property): after date of enactment (qualified clean energy facilities, property and technology)
179D	Energy-efficient commercial buildings deduction	For property, the construction of which begins after June 30, 2026
45L	New energy-efficient home credit	After June 30, 2026
30C	Alternative fuel vehicle refueling credit	After June 30, 2026
45Y	Clean electricity production credit	After December 31, 2027 (terminated for wind and solar facilities placed in service)
48E	Clean electricity investment credit	After December 31, 2027 (terminated for wind and solar facilities placed in service)
45V	Clean hydrogen production credit	After January 1, 2028

EMPLOYER-PROVIDED CHILDCARE CREDIT

- **Old Law (TCJA):**
 - Allowed an employer-provided childcare credit of 25% of qualified childcare facility costs, with a maximum annual credit of \$150,000.
- **New Law (the OBBBA):**
 - Increases the credit to 40%, with a maximum annual credit of \$500,000 (50% and \$600,000 for eligible small businesses).

PAID FAMILY & MEDICAL LEAVE CREDIT

- **Old Law (TCJA):**
 - Allowed an employer credit of between 12.5% and 25% of wages paid to employees on family and medical leave (FML) through 2025.
- **New Law (the OBBBA):**
 - Credit made permanent and expanded to include an option to calculate the credit amount using a percentage of premiums paid for FML insurance instead of wages.

CORPORATE CHARITABLE DEDUCTIONS

- **Old Law (TCJA) – Rules still apply to 2025:**
 - Deduction limit – 10% of taxable income
 - No Floor – contributions fully deductible
 - Carryforward – Excess contributions (over 10%) could be carried forward up to 5 years
- **New Law (the OBBBA) (2026):**
 - New 1% Floor – can only deduct contributions in excess of 1% of taxable income
 - Deduction limit – 10% of taxable income (9% when factoring in new floor)
 - Amounts below the floor are permanently lost unless the corporations total contributions exceed the 10% ceiling. In such cases the floored amount can carryforward for 5 years but only offsets future contributions above the ceiling
 - Carryforward – 5 years for contributions over 10%

NEW SCHEDULE K-2/K-3 EXCEPTION

- **Schedule K-2/K-3 does not need to be filed if ALL of the following criteria are met**
 - Total receipts for the year are less than 250,000
 - Total assets at the end of the year are less than \$1,000,000.
 - Schedules K-1 are furnished to the partners timely
 - The entity is not required to file Schedule M-3

THE OBBBA – OTHER PROVISIONS

- **Form 1099-K reporting:** reverts to \$20,000/200 transaction threshold.
- **Form 1099-MISC and NEC reporting:** threshold increase from \$600 to \$2,000 for payments made after December 31, 2025 (annual inflation adjustments starting in 2027).
- **Employee Retention Credit:** retroactively invalidates claims filed after January 31, 2024, for the third and fourth quarters of 2021.

THE OBBBA – WHAT’S NEXT?

- This is a high-level summary of the business provisions of the OBBBA. As we have discussed, the IRS has issued some guidance on certain provisions but a lot more is expected to come along with regulations, which will help to define and clarify the rules surrounding the implementation of some of these key provisions.
- **On August 7th, the IRS announced:**
 - Forms W-2, 1099, 941 and other payroll return forms will remain unchanged for the 2025 tax year.
 - Federal income tax withholding tables will not be updated for the OBBBA provisions for the 2025 tax year.
 - Employers and payroll providers to continue using current procedures for reporting and withholding.
- How will states adapt? Will they adopt or decouple from new rules? Some have already passed legislation to decouple from certain provisions.

Business Tax Updates Q&A

Reasonable Compensation in S Corporations



Mary Kay Toth, CPA
Tax Principal

WHAT IS REASONABLE COMPENSATION?

- **IRS Definition:** The value that would ordinarily be paid for like services by like enterprises under like circumstances.
- **Determined by Facts and Circumstances:** Taxpayer bears the burden of proof to substantiate reasonable compensation.
- **Common Misconceptions:**
 - 50% wages / 50% distributions
 - Social Security wage max
 - Setting wages as a percentage of sales based on industry standards

REASONABLE COMPENSATION (cont'd)

- Reasonable compensation → Fair market value of services
 - Subject to all payroll taxes
- Distributions
 - No payroll taxes
- IRS 1120S Instructions:
 - Distributions and other payments by an S corporation to a corporate officer must be treated as wages to the extent the amounts are reasonable compensation for services rendered to the corporation.

REASONABLE COMPENSATION (cont'd)

- IRS S Election Acceptance Letter

Payments to shareholder-employees for services rendered:

- You must determine a reasonable salary when a shareholder employee of an S corporation provides services to the corporation.
- Payments to a shareholder-employee for services provided to an S corporation are wages and are subject to employment taxes.
- We may re-characterize distributions paid to a shareholder as salary if the distribution was paid in lieu of reasonable compensation (Revenue Ruling 74-44).

FACTORS IN DETERMINING REASONABLE COMPENSATION

- Training/experience
- Duties and responsibilities
- Time and effort devoted to the business
- Dividend history
- Payments to non-shareholder employees
- Time and manner of paying bonuses to key people
- What comparable businesses pay for similar services
- Compensation agreements
- Formula to determine compensation

COURT CASE – MCALARY LTD

- Insight on how the IRS determined reasonable compensation.
 - **Facts of the Case:**
 - Sean McAlary sole owner of real estate company
 - 2006 reported net income was \$231,454
 - 2006 shareholder distributions were \$240,000
 - 2006 wages were zero
 - Tax savings (pre-audit)
 - Social Security wage max 2006 - \$94,200
 - Employer and Employee tax savings \$5,840 times 2
 - Medicare piece (no wage max) \$3,480 times 2
 - Other miscellaneous wages taxes i.e., unemployment, local, etc.

COURT CASE—MCALARY LTD (cont'd)

- **IRS position**

- IRS determination of reasonable wages was \$100,775
 - Primary job was a realtor
 - Worked 12 hr days 6/7 days per week
 - Compared company to his peers in the real estate industry
 - Fair market value \$48.44/hr (2080 hrs per year)

- **McAlary argument**

- Wages should have been \$24,000
 - Miscommunication with tax preparer
 - Memorialized in a compensation agreement

COURT CASE-MCALARY LTD (cont'd)

- **Court determination**

- Wages should be \$83,200

- Considered all the services he provided including management, bookkeeping, recruiting, advertising, supervision, etc
- New to the industry
- Published CA wage data
- Average hourly wage \$40/hr

- Court stated, "determining an employee's reasonable compensation is dependent upon a number of factors and is far from an exact science."

Reasonable Compensation Q&A

15-MINUTE BREAK

R&D Tax Credit Updates



Patrick Rogers, EA, MST
Tax Principal and R&D Director

AGENDA

- **2025 Transition year: Federal Changes**
- **Internal Revenue Code Section 174A – Domestic R&D Deductibility**
- **Recovery of Capitalized R&D (2022-2024)**
- **Conforming Changes to Section 41 & 280C**
- **Pennsylvania Treatment of R&D for Corporations/Pass-Throughs**
- **Next Steps and Taxpayer Considerations**

OVERVIEW: THE OBBBA FEDERAL

- Reverses TCJA changes to Section 174.
- Introduces Section 174A: Immediate Deductibility of Domestic R&D.
- Allows options for future or retroactive relief (small businesses).
- Amends Sections 41(d) and 280C(c).

SECTION 174A – DOMESTIC R&D DEDUCTIBILITY

- Allows full deduction of domestic R&D costs effective January 1, 2025, as businesses will no longer be required to capitalize and amortize R&D expenses.
- Applies only to domestic expenditures, as foreign R&E remains subject to 15-year amortization.
- Optional 60-month (5-year) amortization available.
- The legislation also allows for flexibility in deducting any unamortized Section 174 costs, either in full in 2025 or spread over 2025–2026.
- Allows retroactive relief for small businesses (**Deadline July 6, 2026**).

RECOVERY OF PREVIOUSLY CAPITALIZED R&D

- Allows retroactive relief for small businesses **file amended returns on or before July 6, 2026.**
- Small businesses that average gross receipts of \$31 million or less can amend tax returns for 2022–2024 to claim full immediate deductions for domestic R&D and potentially recover previously deferred expenses.
- Deduct remaining unamortized domestic R&D in 2025 or over two years.
- Provides flexibility for treatment of R&D Credits and estimated payments.

WHAT COSTS QUALIFY FOR THE CREDIT?

- Wages of employees working directly on the innovation, along with supervisors.
- Contract research expenses, computer leasing.
- Supplies, if expended in the process of R&D activities.

 WAGES	 SUPPLIES	 COMPUTER LEASING	 CONTRACT RESEARCH
<ul style="list-style-type: none">• Performing qualified research• Technical supervision of qualified research• Technical support of qualified research	<ul style="list-style-type: none">• Tangible personal property utilized during the process of qualified research• Cannot be subject to depreciation	<ul style="list-style-type: none">• Owned and operated by someone other than the taxpayer• Cloud computing costs most common	<ul style="list-style-type: none">• Any amount paid or incurred by the taxpayer to any person/company other than employees for qualified research• Includable up to 65% (75% for research consortia)

QUALIFYING FOR THE CREDIT

To qualify for the R&D Tax Credit, a company's innovative product, process, technique, formula or software does not need to be new to the world or new to the industry; it simply needs to be new to the business. Additionally, the company must also be able to demonstrate that activities satisfy a **four-part test** from the IRS:

1. **Permitted Purpose:** The research creates a new or improved product or process that results in increased performance, function, reliability or quality.
2. **Technological in Nature:** The process of experimentation relies on one or more hard sciences, such as engineering, physics, chemistry, biology or computer science.
3. **Elimination of uncertainty:** The research activity has attempted to eliminate uncertainty about the development or improvement of a product or process.
4. **Process of experimentation:** The company has evaluated alternatives for achieving the desired result and can demonstrate having done so through modeling, simulation, systematic trial and error or other methods.

R&D QUALIFICATION CRITERIA: FOUR PART TEST

1 §41(d)(1)(B)(ii)

PERMITTED PURPOSE

- New or improved product, process, technique, formula, invention, or computer software
- The purpose of the research must relate to a new or improved function, performance, reliability, or quality

2 §41(d)(1)(B)(i)

TECHNOLOGICAL IN NATURE

The activity is undertaken to discover information that is technological in nature

3 §41(d)(1)(A)

THE UNCERTAINTY TEST

- The activity must involve technical uncertainty or risk related to:
- Capability (if it can be done), or
 - Method (how it can be done), or
 - The Appropriate Design

4 §41(d)(1)(C)

PROCESS OF EXPERIMENTATION

The qualified activity must involve the evaluation of one or more alternatives where the capability and method of achieving the result is uncertain as the outset

CONFORMING CHANGES TO SECTION 41 & 280C

- The OBBBA modified several key provisions related to Sections 41 and 280C(c). Taxpayers claiming the gross research credit must reduce their domestic R&E expenditures by the amount of the gross research credit.
- Alternatively, taxpayers may elect to claim the reduced research credit on a timely filed return (including extensions). These options are consistent with pre-TCJA rules under Section 280C(c).
- Section 41(d) also was amended and now requires that expenditures be treated as domestic R&D expenditures under Section 174A to be qualified research expenditures eligible for the research credit.

Pennsylvania Treatment of R&D for C Corporations/Pass-Throughs

Effective Date: Tax years beginning after Dec 31, 2024

- **C-Corporations (Subject to Corporate Net Income Tax)**
- **Federal Decoupling:** PA does not fully conform to IRC §§174 or 174A
- **Add-Back Requirement:**
 - Must **add back** federal amortization and depreciation deductions for R&D and qualified production property.
- **Additional PA Deduction:**
 - Allowed to deduct **20% of remaining unamortized qualified R&D costs** annually until the full federal amount is claimed.
 - Applies to expenditures under IRC §174 and 174A.
- **Pass-Through Entities (Partnerships, S Corps, LLCs)**
- **Taxed Under Personal Income Tax (PIT):**
 - R&D expenses flow through to owners as ordinary income.
- **No Special Treatment:**
 - No add-back or additional deduction for R&D expenses.
 - Owners cannot claim extra PA deductions beyond standard PIT rules.

SUMMARY AND NEXT STEPS

- Immediate expensing of domestic R&D (Section 174A).
- Foreign R&D still amortized.
- Retroactive relief for small businesses.
- Businesses with average gross receipts of \$31 million or less can amend tax returns for 2022–2024 to claim full immediate deductions for domestic R&D and potentially recover previously deferred expenses.
- Review accounting methods and evaluate amended return potential.

NEXT STEPS (cont'd)

FEDERAL FILING REQUIREMENTS

- **More Documentation, More Complexity** – The IRS now requires additional reporting on qualified expenses, research activities and business components right from the start.
- **Stricter Wage Classification** – Businesses must separate direct R&D labor, supervisory roles and support staff—meaning better tracking systems are a must.
- **Increased IRS Scrutiny** – The IRS is tightening compliance with these changes. Mistakes could lead to claim delays or lost credits.
- **New Sections (Including Section G)** – Optional for 2025, but mandatory in 2026—businesses need to act now to stay compliant.

R&D Tax Credit Updates Q&A

SALT Updates



Jason Skrinak, CPA

Founder – Pivot Strategic Consulting

Agenda

- Pennsylvania Budget Update
- Pennsylvania Tax Updates
- 2026 Tax Foundation Report
- Pennsylvania Business Privilege Tax
- Pennsylvania Sales Tax Audit Issues
- Multi-State Tax Updates

Pennsylvania Budget Update

Pennsylvania Budget Update

- **Budget Summary**

- State Budget was Due June 30, 2025 – Over 4 Months Late
 - Main Point of Contention was Total Spend
 - 2024-2025 Budget Spend \$47.6B
 - Original Proposed Budget Spend
 - Proposed Revenue Raisers
 - Legalization and Taxation of Recreational Marijuana
 - Tax on Games of Skill (16-52%)
 - Proposed Expenditures
 - Education
 - Human Services
- State Budget was Passed November 12, 2025
 - \$50.1B
 - Funded with No New or Increased Taxes
 - Use of Available Fund Balances to Cover Expenses
 - Did Not Use Rainy Day Fund

Pennsylvania Budget Update

- **Budget Summary – Cont'd**

- Decoupling from the One Big Beautiful Bill Act (OBBBA)

- IRC 174 – Research and Experimental

- Add back for 2025 Deductions from Federal
 - 20% Use of Add-Back for 5 Year Period
 - Possible Issue

- IRC 168n - Qualified Production Depreciation

- The OBBBA Provides 100% Expense Deduction of Property Normally Depreciated over 39 years (property in service before 1/1/31)
 - PA – Add-Back and Depreciate As If The OBBBA Was Not Enacted

- IRC 163j - Business Interest Expense

- The OBBBA – Increase Interest Deduction to 30% of EBITDA After Add-Back Federal Depreciation and Amortization Expense
 - PA Required Using Pre-OBBBA Calculation of EBITDA

- Working Pennsylvanians Tax Credit

- Up to 10% of Federal Earned Income Tax Credit
 - Refundable Credit
 - Effective for 2025

Pennsylvania Budget Update

- **Budget Summary (cont'd)**

- Maintains Scheduled Reduction of Pennsylvania Corporate Net Income Tax Rate
 - 7.99% for 2025
 - 0.5% Annual Reduction until 4.99% in 2033
- Pennsylvania Department of Revenue Initial Comments -
<https://www.picpa.org/docs/site/advocacydoc/pa-dor-updates/11-20-25-pa-dor-responses---act-45-or-2025.pdf>
- Child Care Retention and Recruitment
- \$50M for Special Pennsylvania Events
 - America 250
 - World Cup
 - NFL Draft
 - MLB All-Star Game

Pennsylvania Budget Update

- **Budget Summary (cont'd)**

- What Did Not Make the Cut

- Combined Reporting Being Considered
 - Considering Pass-Through Entity Tax
 - Pass Through Entity Tax - SALT Federal SALT Cap (35 State Have Similar Structure)
 - Non-Resident Credit for PTE – Consideration for Similar Treatment for Partnerships as S Corporations Receive
 - Accelerating Pennsylvania Corporate Net Income Tax Rate Reduction

- Concerns Going Forward

- Independent Fiscal Office (IFO)– Pennsylvania Fiscal Outlook 2025-26 to 2030-31
 - 2025-26 Operating Deficit of over \$3B
 - Up to \$7B by 2030-31
 - Continued Corporate Net Income Tax Rate Reduction?
 - Changes to Tax Rates and Base?
 - Sales and Use Tax Base – October 2025 IFO Report on Sales Tax Expansion
 - Increased Audits and Discovery?
 - Continued Aggressive Sales and Use Tax Positions?
 - Increased Personal Income Tax Rate

Pennsylvania Tax Updates

Pennsylvania Tax Updates

- **Corporate Net Income Tax Rate Reduction**
 - 9.99% Cut Eventually to 4.9% in 2031 (Effective 1/1/2023)
 - 0.5% Reduction Annually
 - 7.99% Rate for 2025
- **2024 NOL Legislation – 10% of Additional NOL Usage – From 40% to 80% (2026 through 2029)**
 - 40% Limit for all Pre 1/1/2025 NOLS generated
 - 50% for 2026
- **Pennsylvania Administrative Appeals**
 - Department of Revenue May Enter into Closing Agreements for Tax Disputes
 - Board of Appeals – New Keystone Login Account
 - Board of Finance and Revenue Online Petition Submission
 - Board of Finance and Revenue Mediation Option
 - Pennsylvania Appeals Legislation House Bill 1551
 - Timing of Appeals Decisions
 - Board of Appeals 6–12 Months
 - Board of Finance and Revenue 6–12 Months
 - Commonwealth Court 5–7 Years

Pennsylvania Tax Updates

- **Sales Tax Bulletin – Help Supply and Building Cleaning Services**
- **Repeal/Reduce Personal Income Taxes**
 - 9 States without Personal Income Tax
 - How to Replace Revenue?
 - Increased Personal Income Tax Rate
 - Sales Tax Rate Increase
 - Sales Tax Expansion
 - Foods
 - More Services
 - Eliminate Exemptions
 - Additional Taxes/Fees
- **Repeal Property Taxes (School District)**
 - Increased Personal Income Tax Rate (Possible 60% Increase???)
 - Increased Sales Tax Rate (33% Increase???)
 - Still Have Property Taxes for Other Localities

Pennsylvania Credits and Incentive Updates

- **Expanded Property Tax / Rent Rebate Program**
 - Eligibility Limit Increased to \$45,000
 - Maximum Rebate Increased to \$1,000
- **Currently No Increased Funding for Educational Improvement Tax Credit (EITC) or Opportunity Scholarship Tax Credit (OSTC) Programs.- Proposal for Increased Funding Under Consideration - \$540M From 2024-2025 Budget**
 - EITC/OSTC Credit Very Popular and Competitive
 - \$750,000 Cap
 - Pre-K EITC Earmarked for \$20.5M – All Credits Were not Used
 - \$200,000 Cap

2026 State Tax Competitiveness Index – Tax Foundation

2026 Tax Foundation Report

- **Pennsylvania Overall Ranked #36**

- Corporate Tax #34
- Individual Tax #38
- Sales Tax #24
- Property Tax #13
- Unemployment Insurance #34

- **Pennsylvania Highlights**

- Relaxing NOL Limitations
- Corporate Net Income Tax Rate Reductions
- Low PIT Rate is Positive
- Difficulty in Tax Base is a Negative
- Local Earned Income Tax Viewed as Negative
- Overall Local Taxes Viewed as Most Complex and Burdensome in the Country

Pennsylvania Business Privilege Tax

Pennsylvania Business Privilege Tax

- **Introduction of Pennsylvania Business Privilege Taxes (BPT)**
 - Imposed on Gross Receipts by Various Pennsylvania Localities for Doing Business in that Locality
 - No New Localities may Impose BPT
 - Nexus for BPT
 - Base of Operations (Rendina Decision)
 - Site Need Not Be Permanent
 - Job Site Trailer
 - Act 42 2014 – Brightline Nexus
 - Work done with Jurisdiction 15 or More Days in a Year

Pennsylvania Sales Tax Audit Issues

Pennsylvania Sales Tax Audit Issues

- **What are Some Recent Pennsylvania Audit Issues?**

- Help supply services
 - Employee of vendor
 - Work supervised by purchaser
- Inter-company transactions
- Exemption certificates
- Manufacturing/processing exemption
- True object test
- Cloud computing and computer services
- Special Resale

Multi-State Tax Update

Multi-State Tax Updates

- **Current and Prospective Issues**
 - Continued Nexus Concerns
 - Attacks on Public Law 86-272
 - Remote Employees
 - Common Carriers – Miles Driven in State
 - Software as a Service
 - Tangible Personal Property versus Services
 - Bundled Transactions
 - Sourcing
 - Expansion of Sales Tax Base
 - Data Processing
 - Computer Services
 - Digital Advertising

Multi-State Tax Updates

- **Current and Prospective Issues (cont'd)**

- Maryland Digital Advertising Tax

- Imposed on Companies Gross Revenue on Digital Advertising

- At Least \$100M Global Annual Gross Revenues
- At Least \$1M Derived in Maryland
- 2.5% Global Revenues \$100M-\$1B
- 5% Global Revenues \$1B-\$5B
- 7.5% Global Revenues \$5B-\$15B
- 10% Global Revenues Exceeding \$15B

Questions?



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Maryland Tax Updates



Sherry Cracium-Bolin, CPA
Tax Principal

Individual Tax - New Brackets & Rates

- Adds a cap on the current highest bracket and adds two new top individual income tax brackets:

	Single	Joint / HOH
5.75%	\$250,001 - \$500,000	\$300,001 - \$600,000
6.25%	\$500,001 - \$1,000,000	\$600,001 - \$1,200,000
6.50%	>\$1,000,000	>\$1,200,000

- Applicable to taxable years beginning after December 31, 2024
- Interest for underpayment of estimated tax is waived for 2025 if the underpayment would not have been incurred but for the increase in the income tax rates

Individual Tax – Capital Gains

- Imposes a 2% surtax on net capital gain included in Maryland adjusted gross income if federal adjusted gross income exceeds \$350,000, excluding gains from sale of the following:
 - Primary residence sold for less than \$1.5 million;
 - Assets held in a cash or deferred arrangement plan under IRC § 401(k); a tax-sheltered annuity or custodial account under IRC § 403(b); a deferred compensation plan under IRC § 457(b); an individual retirement account or individual retirement annuity under IRC § 408; a Roth IRA under IRC § 408A; or a defined contribution plan, a defined benefit plan, or a similar retirement savings plan;
 - Certain livestock if at least half of the individual's income is from farming or ranching;
 - Land subject to a conservation, agricultural, or forest preservation easement that will be subject to a conservation, agricultural, or forest preservation easement on the sale or exchange of the land;
 - Property used in trade or business, the cost of which is deductible under IRC § 179; and
 - Affordable housing owned by a nonprofit organization.

Individual Tax – Itemized Deductions

- Sets the income thresholds for which the itemized deduction phase-out begins:
 - Federal adjusted gross income exceeding \$100,000 (married filing separately)/ \$200,000 (all other filing statuses)
- The amount of itemized deductions otherwise allowed is reduced by 7.5% of the amount of federal adjusted gross income in excess of the applicable threshold
- Applicable to taxable years beginning after December 31, 2024

PASS-THROUGH ENTITY TAXES

- Under current law, electing PTE tax is calculated based on the sum of all members Maryland shares of income
- The definition of “pass-through entity’s taxable income” was revised (TG § 10-102.1(a)(8))
- For resident PTE members, the definition was amended so that income includes the member’s distributive or pro rata shares of the pass-through entity inside and outside of Maryland
- For nonresident PTE members, the prior definition, which includes income derived from or reasonably attributable to the trade of business of the PTE in Maryland, remains the same. (TG § 10-102.1(a)(8)(i))
- **Applies to tax year 2026**

MD DECOUPLING

- Automatically decoupled for TY2025 from the following provisions:
 - Full expensing of domestic research and experimental expenditure
 - Special depreciation allowance for qualified production property
 - Modification of limitation on business interest deduction
- Modifications to Form 500DM, where taxpayers will report decoupling for these items for tax year 2025
- Maryland legislature will convene in 2026 and determine whether to permanently decouple from any of the provisions in the OBBBA, which will be reflected on forms for TY2026 and later

MD DECOUPLING (cont'd)

- No auto-decoupling for these provisions:
 - No tax on tips, no tax on overtime, no tax on automobile loan interest, additional deduction for seniors
 - **No effect** on the Maryland forms and tax calculations, as these are all below-the-line deductions
- Higher Federal SALT Limitations and Higher Federal Standard Deductions – Calculate Federal and MD with both to see which creates the lowest overall tax liability – Must follow whatever you choose for Federal on the Maryland individual returns

MARYLAND SALES TAX ON IT SERVICES

- **3% sales tax rate effective 7/1/25.**
- **Sales of data or information technology service:**
 - NAICS codes 518, 519, 5415, 5132
 - Cloud computing, cloud storage, hosting and backup
 - Web hosting and related services
 - Data processing, analytics and data services
 - IT consulting, systems integration, software development services
 - Software publishing and subscription models (SaaS)

MARYLAND SALES TAX ON IT SERVICES (cont'd)

- **Compliance and Administration:**

- Vendors (in or out-of-state) with Maryland customers must register, collect and remit 3% tax when applicable.
- MD Tax Connect is used for registration and sales tax returns.
- Out-of-state providers with economic nexus need to comply.
- Sellers must classify services to determine if 3% tax applies.
- Bundled services, if not properly itemized, could make the entire bundle subject to 3% tax.

MARYLAND SALES TAX ON IT SERVICES (cont'd)

- **Exemptions and Special Rules:**

- Nonprofit or government entities – request exemption certificates.
- Multiple points of use Certificate:
 - When buyer is using in multiple states, including Maryland.
 - Must apply for certificate for each transaction.
- If service will be resold in its original state, buyer should issue a resale certificate to subcontractor.

- Website:

- <https://www.marylandcomptroller.gov/individuals/2025-tax-updates.html>

- Technical Bulletin with more information:

- <https://www.marylandcomptroller.gov/content/dam/mdcomp/tax/legal-publications/technical-bulletins/tb-56.pdf>

Maryland Tax Updates Q&A

Legislative Forecasting



Randy Fackler, CPA, CEPA, MST
Principal and Tax Director

**2025 has proven to be a
significant year for tax
policy.**

ASU 2023-09: INCOME TAX DISCLOSURES

- **Purpose:** To enable users of financial statements to understand the nature and magnitude of factors contributing to the difference between the effective tax rate and the statutory tax rate.
- **In depth:** FASB issues guidance on income tax disclosures.
- **Effective date:** For public business entities, the new standard is effective for annual periods beginning after 12/15/24, while for non-public business entities, it is effective for annual periods beginning after 12/15/25.

Background

- Focus on disaggregated disclosures related to the effective tax rate reconciliation and income taxes paid information.
- Applies to entities subject to ASC 740.
- Public Entity has been replaced with Public Business Entity.

Expanded reconciliation

- PBEs must disclose 8 specific categories in the rate reconciliation.
- Disaggregation of reconciling items (by both nature/justification) within certain categories on an annual basis when the disaggregated reconciling item is greater than or equal to a threshold of 5% of pretax income multiplied by the statutory tax rate in the country of domicile.
- Private companies can provide qualitative narrative for the rate reconciliation instead of a detailed table.

Taxes paid requirements

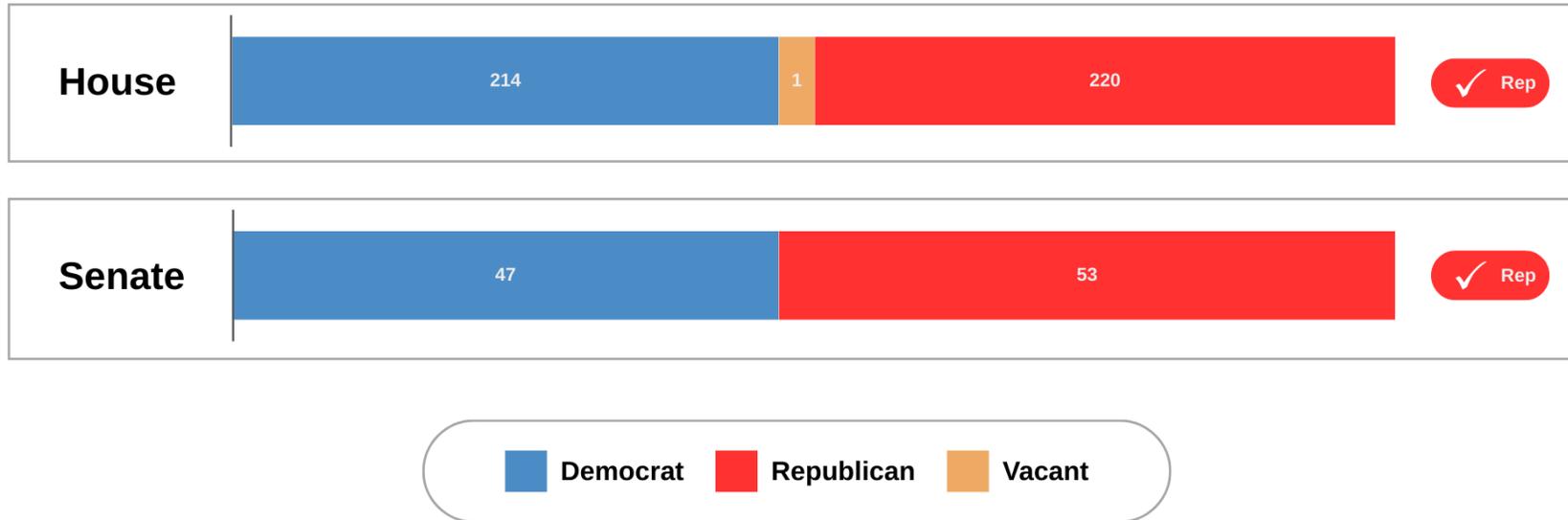
- Disclosure of the amount of income taxes paid (net of refunds received) disaggregated by federal, state and foreign on an annual basis.
- Disaggregation of income taxes paid (net of refunds received) to individual jurisdictions that are equal to or greater than 5% of total income taxes paid (net of refunds received).

Scope and transition

- Applicable to all business entities subject to income tax.
- Transition is prospective, with the option to apply retrospectively.

The OBBBA was enacted with only Republican votes using reconciliation procedures.

Narrow majorities pose a challenge for other bills under regular order

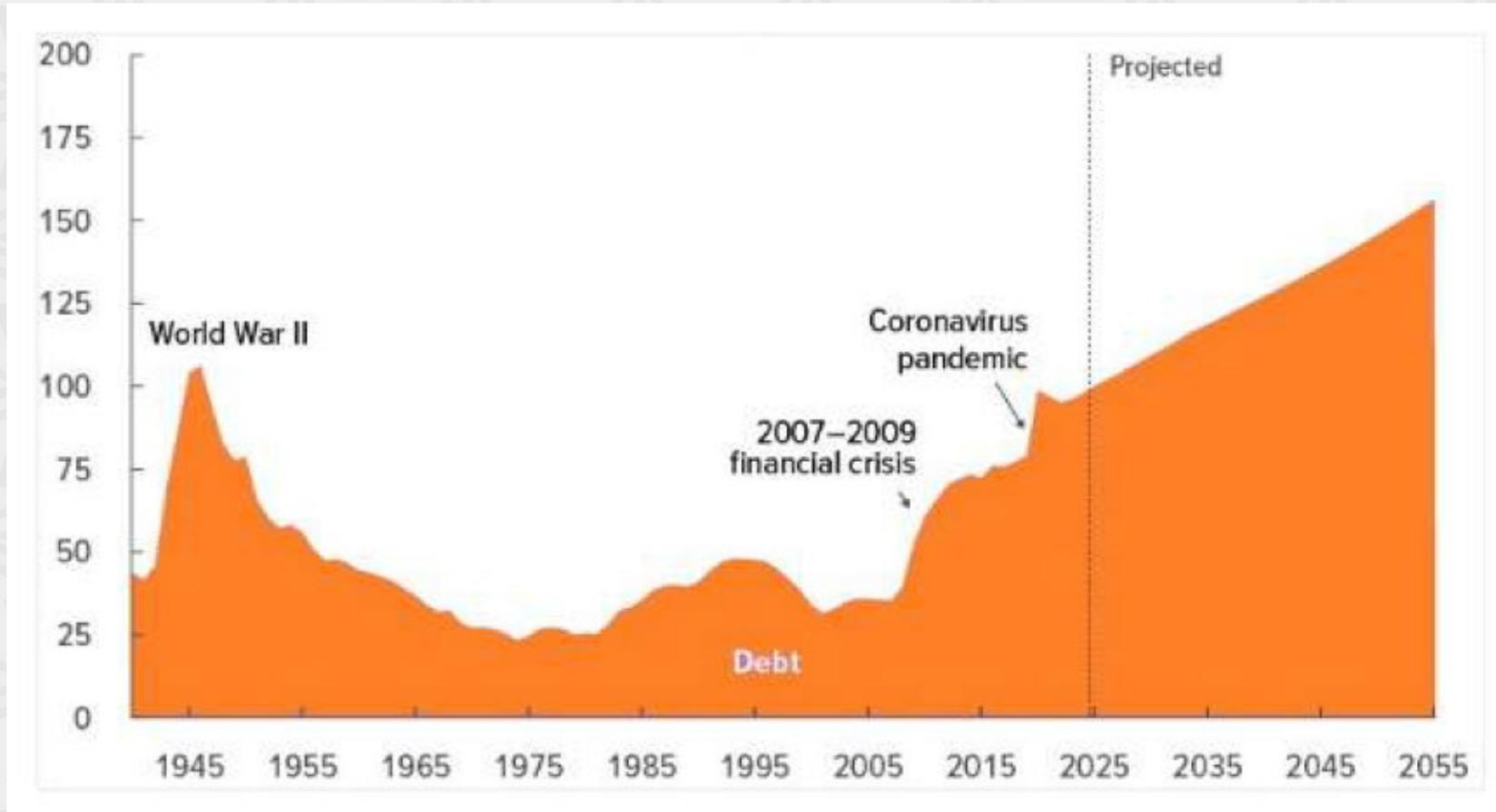


*Independent Senators King (I-ME) and Sanders (I-VT) caucus with the Democrats.

Note: House vacant seats as of December 8, 2025. A special election was held to fill Sylvester Turner's (D-TX) seat, but no candidate won outright. Christian Menefee (D-TX) and Amanda Edwards (D-TX) will advance to a special run-off election to be held January 31, 2026.

Source: U.S. Congress

Projected fiscal effects of the OBBBA over 10 years

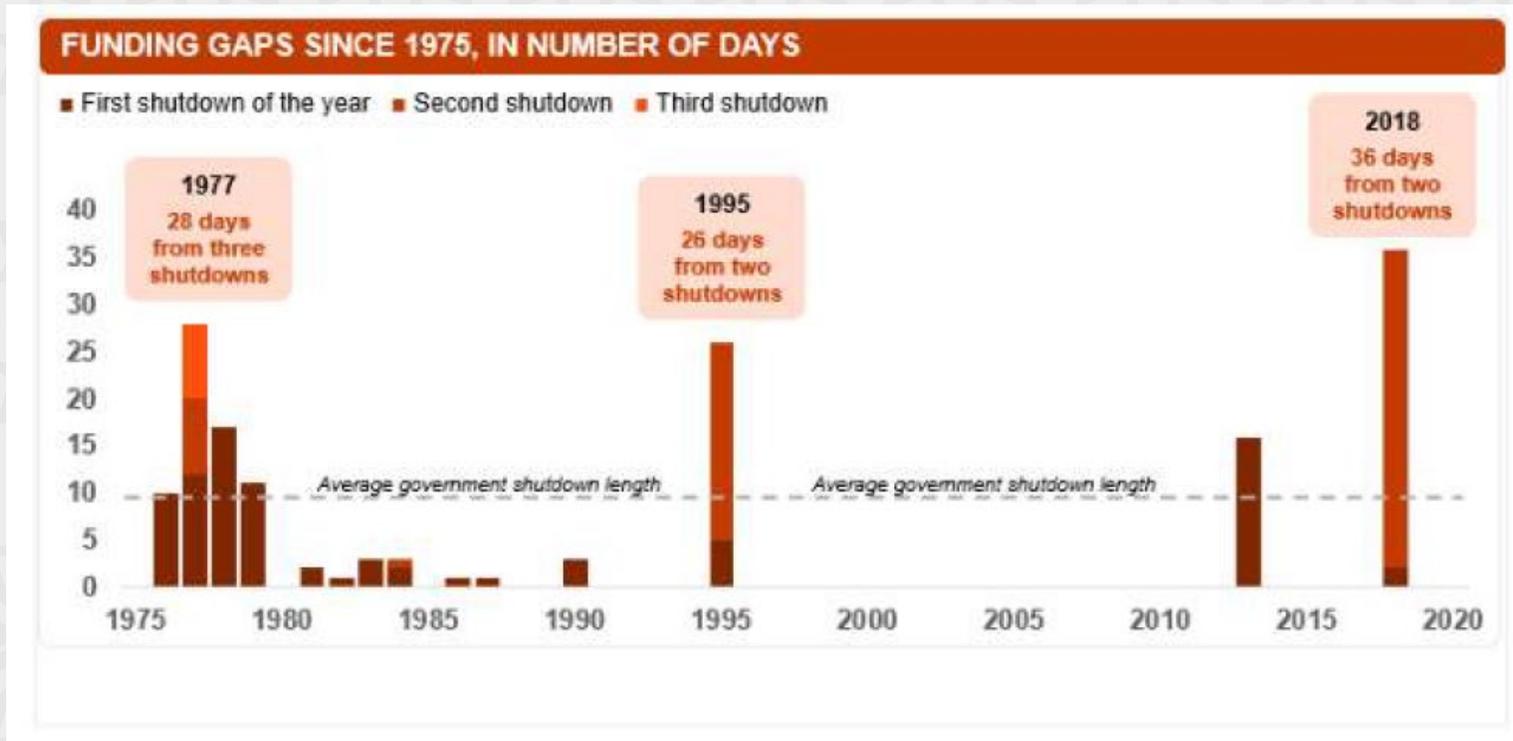


Note: CBO “Long-term Budget Outlook: 2025 to 2055” chart on projected debt as a percentage of GDP issued in March 2025 does not reflect the effects of H.R. 1 as enacted.

Sources: Congressional Budget Office, Joint Committee on Taxation, July 21, 2025.

Government shutdown began October 1, with failure to reach agreement on FY 2026 funding.

FY 2025 Government funding expired on September 30, 2025.



The first Trump administration experienced two shutdowns from 2018-2019



5 of 21 government shutdowns have lasted for over 10 days

WHAT'S NEXT AFTER REOPENING THE GOVERNMENT?

- **Potential year-end bipartisan tax bill.**
- Could address ACA premium tax credits, WOTC and other provisions expiring at the end of 2025, as well as US-Taiwan double taxation relief.
- Dimming prospects for additional reconciliation bills, BUT never say never.

IRS leadership and staffing remain in flux under President Trump.

19 of 29

Top IRS executive posts vacant or filled by acting officials, as of August 27, 2025

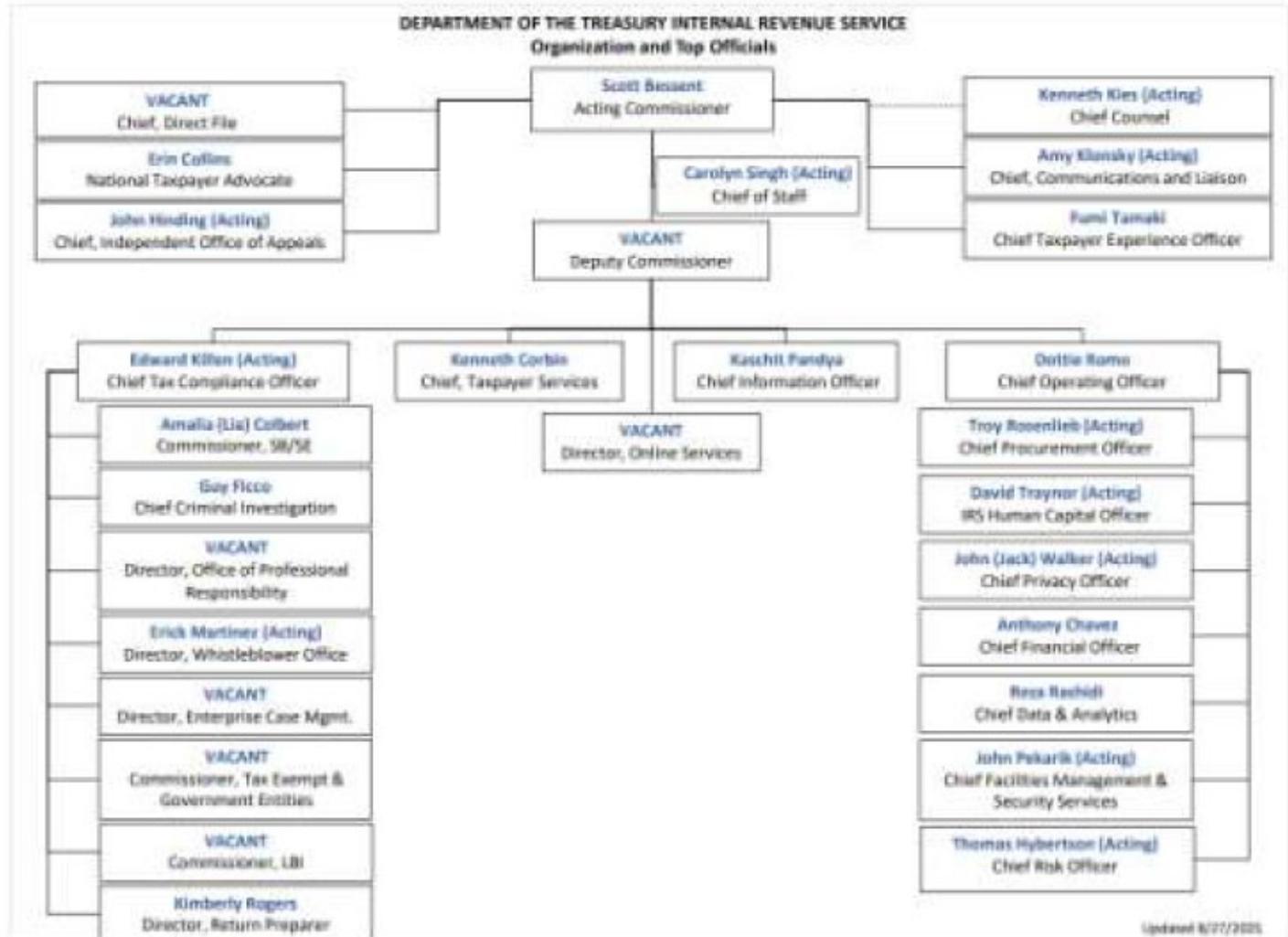
-25%

Drop in IRS headcount since January 2025, from over 100,000 to roughly 76,000 as of June.

-34,000

Nearly half of the remaining IRS employees have been furloughed due to lapse in FY 2026 federal funding.

Source: Internal Revenue Service, October 2025



PROJECTED FISCAL EFFECTS OF TARIFFS

+18 percentage points

Congressional Budget Office estimates for the effective tariff rate increase for goods imported into the United States, when measured against 2024 trade flows.

+\$118 billion (or 153%)

Increase in FY 2025 tariff revenues, relative to fiscal year 2024.

-\$3.3 trillion

Decrease in primary deficits (excluding net outlays for interest) if the higher tariffs in effect as of August 2025 persist for the 2025-2035 period.

ANYTHING HAPPENING IN 2026?

Looking ahead to the 2026 midterm elections:

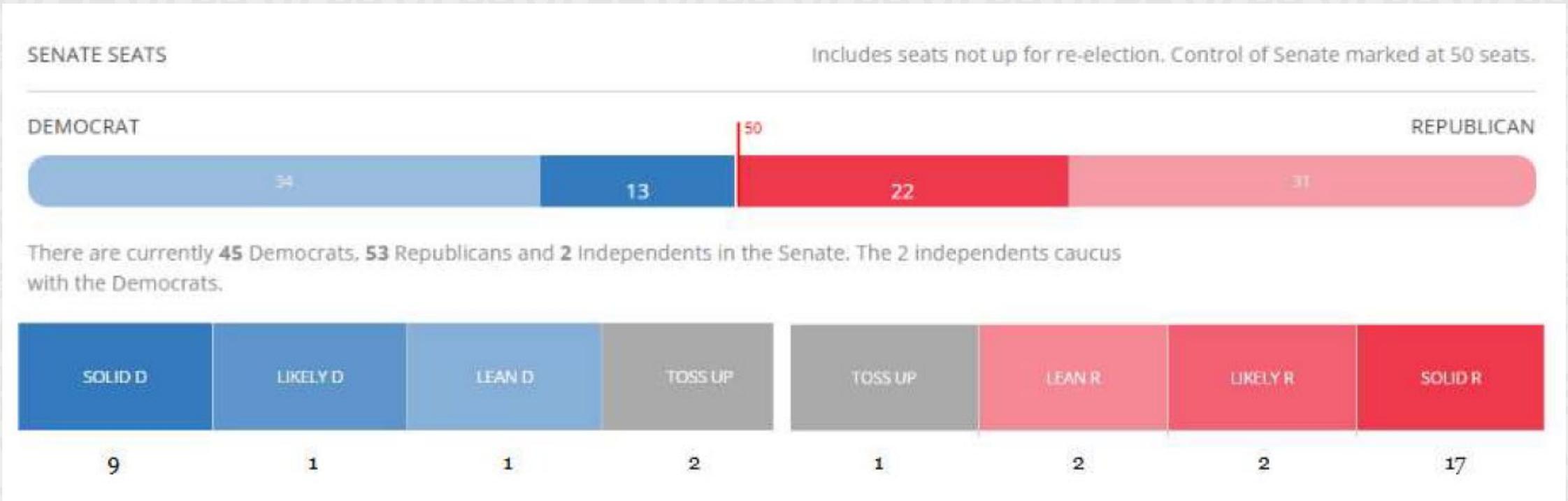
Balance of power will affect prospects for future legislation.

House control again could be a toss-up in 2026 midterm elections.



Source: Cook Political Report with Amy Walter – September 26, 2025.

Three Senate seats are considered toss-ups in 2026 midterm elections.



Source: Cook Political Report with Amy Walter – August 18, 2025.

Legislative Forecasting Q&A

OTHER HELPFUL RESOURCES

From the AICPA:

- [Effective dates of tax provisions in H.R. 1, the One Big Beautiful Bill Act \(H.R. 1\)](#)

From the Brown Plus Blog:

- [Brown Plus 2025 OBBBA Webinar Materials](#)
- [Key Tax Changes from the 2025 One Big Beautiful Bill Act](#)
- [2025-2026 Maryland Budget: Major Tax Provisions](#)
- [Maryland's New Tech Tax Starts July 2025: What Businesses Need to Know](#)
- [Research and Development Tax Credit Q&A with Patrick Rogers](#)
- [Pennsylvania Filing Associations Required to Submit Annual Reports Starting in 2025](#)

THANK YOU!



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