



# OBBB PROVISIONS IMPACTING BUSINESS OWNERS

Welcome to this month's Advanced Market's Minute. Last month, we explored key provisions in the One Big Beautiful Bill (OBBB) that impact individuals and families. This month, we're turning our attention to small business owners.

Below you'll find an overview of the most notable provisions, designed to make it easier for you to have meaningful, informed conversations with your business owner clients.

## State and Local Tax (SALT) Deduction & Pass-Through Entity Tax (PTET)

Last month we reviewed the OBBB provision temporarily increasing the cap on SALT deductions from \$10,000 to \$40,000, starting in 2025. Prior to this increase, owners of S Corp, LLC or partnership were limited as to how much of their state income taxes they could deduct on their personal return. For many business owners, especially in higher taxed states, this cap meant losing out on valuable deductions.

**How it works:** When the TCJA originally capped the SALT deduction at \$10,000, many states responded by introducing pass-through entity tax (PTET) elections. PTET elections allow businesses to be taxed at the entity level for state income tax purposes, which lets the tax be treated as a deductible business expense. In effect, PTET provides a workaround to the SALT limitation for owners of pass-through entities.

While earlier versions of the legislation placed certain restrictions on PTET, the OBBB does not have any limits. It's also important to remember that not every state has adopted PTET provisions, and the rules differ between states, so business owners need to consult with their tax professionals to see if they are eligible for this workaround.

## Qualified Business Income (QBI) Deduction

The OBBB makes the QBI deduction, originally introduced under the TCJA, permanent at 20%.

This deduction is designed to level the playing field between C-corporations, which enjoy a flat 21% tax rate, and small business owners of pass-through entities (such as S-corps, LLCs, partnerships and sole proprietorships) who are taxed at their individual income tax rates.

**How it works:** These pass-through businesses may deduct up to 20% of their QBI on their personal tax return. The deduction gradually phases out once taxable income exceeds certain levels.

For 2025, owners of pass-through businesses with income under \$394,600 (married filing jointly) or \$197,300 (single and other filers) can generally claim the full 20% deduction on their QBI. When income rises above those amounts but stays within \$100,000 for joint filers or \$50,000 for others, the deduction begins to phase out. At \$494,600 for joint filers or \$247,300 for others, non-service businesses are limited to deducting the smaller of (1) 20% of QBI or (2) the larger of either 50% of wages paid to employees, or 25% of wages plus 2.5% of the unadjusted basis of qualified property. Keep in mind, for specified service trades or businesses, the deduction disappears entirely once those upper income limits are reached.

Beginning in 2026, the phase-in ranges expand from \$100,000 to \$150,000 for joint returns, and \$50,000 to \$75,000 for single and other non-joint returns. Also starting in 2026, the OBBB introduces an inflation-indexed minimum deduction of \$400 for any taxpayer with at least \$1,000 of QBI from one or more businesses in which they actively participate.

It's important to let your clients know that the QBI deduction is not automatic and can be complex. Each business owner's situation is different, so it's important to work with a qualified tax professional to determine eligibility and calculate the deduction correctly.

## Immediate Expensing Simplified: Bonus Depreciation & Section 179 Expensing

The tax code includes numerous provisions that let businesses deduct or depreciate the cost of equipment and property. The OBBB focuses on two of these provisions: (1) Bonus Depreciation and (2) Section 179 Expensing. Under the OBBB, both provisions are simplified and made permanent.

**How they work:** In practice, these two provisions provide similar benefits through immediate depreciation and are closely related.

**The Bonus Depreciation** rule allows a full 100% first-year deduction for eligible property that is bought and put into use on or after January 19, 2025. In the past, when a business purchased a piece of equipment, or other business asset, the business had to depreciate its cost slowly over several years.

Bonus depreciation lets the business take a much bigger deduction up front, instead of spreading it out. The business can now write off a large portion of the purchase price lowering taxable income in the year of the purchase.

Keep in mind, the deduction only applies to qualified property like machinery, equipment, computers, certain vehicles, and some improvements to buildings. It doesn't apply to land or buildings themselves.

**Section 179**, much like the bonus depreciation rule, also lets business owners immediately deduct the cost of equipment and certain property instead of spreading the deduction out over many years through depreciation. The deduction limit increased from \$1 million, to \$2.5 million starting in 2025. In addition, Section 179 allows for interest tied to the purchase to be deducted alongside the purchase.

Many businesses will combine these provisions, using Section 179 for its flexibility and clear handling of interest, while relying on Bonus Depreciation to cover larger equipment purchases.

## Depreciation Limitation on Business Interest

The OBBB made changes to the interest expense limitation calculation for businesses. These permanent changes take effect in 2025.

**How it works:** Under the old rules, when a business calculated how much interest expense it could deduct, it essentially used income before interest, taxes, depreciation and amortization (EBITDA). But starting in 2022, the formula changed, and depreciation and amortization were no longer added back. That meant that less interest was deductible.

The OBBB changed the rule back to the EBITDA method permanently. That means when calculating the interest limitation, businesses can once again add back depreciation and amortization to income. The business interest deduction is limited to 30% of adjusted taxable income.

## Excess Business Losses

The limitation on excess business losses of non-corporate taxpayers is made permanent.

**How it works:** A business can usually deduct business losses, but there has been a limit on how much loss an individual can use in a single year to offset their other income. Before OBBB, the loss was capped at \$500,000 for married filing jointly/\$250,000 for other filers.

The OBBB extends the excess business loss limitation to individuals and other non-corporate taxpayers, with the amounts adjusted each year for inflation. Losses in 2025 that go beyond the \$626k/\$313k threshold cannot be deducted in the current year but instead are reclassified as a net operating loss (NOL) and carried forward to reduce taxable income in future years.

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