Tax & Business Alert

DECEMBER 2025

NOL DEDUCTIONS CAN EASE THE PAIN OF BUSINESS LOSSES

For income tax purposes, a business loss generally occurs when a business's deductions for the year exceed its revenue. Any business, whether new or established, can face losses. Fortunately, the net operating loss (NOL) deduction can turn the pain of a loss this year into tax savings for next year and, perhaps, beyond.

HOW TO QUALIFY

Tax inequities can exist between businesses with stable income and those with fluctuating income. The NOL deduction helps address those inequities. It essentially lets the latter average out their income and losses over the years and pay tax accordingly.

For a business to qualify for the NOL deduction, the loss generally must be caused by deductions related to your business (Schedule C and F losses or Schedule K-1 losses from partnerships or S corporations), casualty and theft losses from a federally declared disaster, or rental property (Schedule E).

Determination of an NOL generally doesn't include:

- Capital losses in excess of capital gains,
- Exclusion for gains from the sale or exchange of qualified small business stock,
- Nonbusiness deductions in excess of nonbusiness income,
- The NOL deduction, and
- The Section 199A qualified business income deduction.

Individuals and C corporations are eligible for the NOL deduction. While partnerships and S corporations generally aren't eligible, their partners and shareholders can claim individual NOLs based on their separate shares of business income and deductions.

LIMITS APPLY

NOL deductions can't offset more than 80% of taxable income for the year. Any excess NOLs can be carried forward indefinitely.

Suppose your NOL carryforward is more than your taxable income for the year you carry it to. If so, you may have an NOL carryover. That's the excess of the

EXCESS BUSINESS LOSSES MAY BE LIMITED

Under the Tax Cuts and Jobs Act (TCJA), an "excess" business loss limitation went into effect in 2021. That limitation applies at the partner or shareholder level, for partnerships or S corporations, after applying the outside basis, at-risk and passive activity loss limitations.

Under the excess business loss rule, noncorporate taxpayers' business losses can offset only business-related income or gain, plus other income (such as salary, self-employment income, interest, dividends and capital gains) up to an inflation-adjusted threshold. For 2025, that threshold is $313,000, or $626,000 for married couples filing jointly. For 2026, the limit is reduced to $256,000 and $512,000, respectively. Any "excess" losses are carried forward and treated as net operating losses (NOLs).

Under the TCJA, the excess business loss limitation had been scheduled to expire after December 31, 2026. However, the Inflation Reduction Act extended it through 2028, and the OBBBA makes it permanent.

NOL deduction over your modified taxable income for the carry-forward year. If your NOL deduction includes multiple NOLs, you must apply them against your modified taxable income in the same order you incurred them, beginning with the earliest.

NEXT STEPS

When it comes to business losses, the rules are complex, especially the interaction between NOLs and other potential tax breaks. Contact us for help charting your best path forward. ■

HOW DOES THE NEW TAX DEDUCTION FOR CAR LOAN INTEREST WORK?

Generally, except for home mortgage interest, personal interest expense isn't deductible for federal income tax purposes.

With the passage of the One Big Beautiful Bill Act (OBBBA), another exception has been added. That is, you might be able to deduct your car loan interest. But various rules and limits apply.

THE SPECIFICS

The OBBBA allows eligible individuals, including those who don't itemize deductions, to deduct some or all the interest on a car loan they take out to purchase a qualifying passenger vehicle. The maximum car loan interest you can deduct is $10,000 per year, for 2025 through 2028.

But the deduction is phased out starting at $100,000 of modified adjusted gross income (MAGI) or $200,000 for married couples filing jointly. For an unmarried individual, the deduction is completely phased out when MAGI reaches $150,000, and for married joint filers, the phaseout is complete when MAGI reaches $250,000.

Another limit is that only certain vehicles qualify for the deduction:

- The vehicle must be a car, minivan, van, SUV, pickup truck or motorcycle with a gross vehicle weight rating under 14,000 pounds,
- The vehicles must have been manufactured primarily for use on public streets, roads and highways,
- The vehicle must be new, and
- The "final assembly" of the vehicle must have occurred in the United States.

You must report the vehicle identification number (VIN) on your tax return. A car assembled in the United States has a special VIN to signify that it's American-made.

LOAN-RELATED REQUIREMENTS

The loan must be taken out after 2024 and must be a first lien secured by a vehicle used for personal purposes. If an original qualified car loan is refinanced, the new loan will be a qualified loan for purposes of the deduction as long as: 1) the new loan is secured by a first lien on the eligible vehicle, and 2) the initial balance of the new loan doesn't exceed the ending balance of the original loan.

Also be aware that interest on loans from certain related parties doesn't qualify. And lease financing isn't eligible.

To claim the deduction, you'll need to substantiate how much interest you paid during the year. For that, your car loan lender must file an information return with the IRS specifying the amount.

FINAL THOUGHTS

The new deduction for auto loan interest can make buying a car less expensive. But you need to consider the eligibility requirements. First, is your income below the phaseout threshold? Second, have you checked that the car you're considering will qualify? Also, don't make a decision based solely on the ability to qualify for the tax deduction. In some cases, buying a used or foreign vehicle or leasing a vehicle might make more sense, even if you won't be able to claim a tax deduction. Finally, keep in mind that the deduction will expire after 2028 unless Congress acts to extend it.

Have questions about the deduction? Contact us. ■

THE TAX IMPLICATIONS OF REMOTE WORK

Remote work can offer advantages for both employers and employees. But it's not without problems, such as unexpected tax consequences.

STATE TAX ISSUES FOR EMPLOYEES

Remote work allows employees to live in one state and work for an employer in another, which can create complex tax issues. Each state has the right to tax people based on domicile, which is where they intend to make their permanent home, and residency, where they're physically present for a significant portion of the year, typically 183 days.

It's possible to be domiciled in one state and a resident of another, which can lead to being taxed by both states on the same income. While some states offer tax credits to prevent double taxation, differences in tax rates could still mean a higher overall tax bill.

THE HIDDEN TAX BURDEN FOR EMPLOYERS

Allowing employees to work remotely may introduce significant tax and compliance challenges for employers. For example, when employees are located in multiple states, employers may be required to withhold and remit income and payroll taxes in each jurisdiction.

Having employees in another state can also establish what's known as a "nexus" — a legal connection that subjects the employer to that state's tax laws. Once nexus is established, the employer may become liable for a range of state-level taxes, including income, franchise, gross receipts, and sales and use taxes.

Beyond the financial impact, managing multistate reporting and compliance can be time-consuming and costly. These added complexities can increase an employer's overall tax burden and administrative workload, making proactive planning and professional guidance essential.

JOB-RELATED EXPENSES

Before 2018, employees could claim a home office deduction if they met certain conditions. In most cases, that deduction is no longer available except for self-employed business owners. Employees also generally can't deduct other unreimbursed job-related expenses under current law.

Employers may reimburse remote workers for their business expenses according to an "accountable plan" that requires employees to substantiate the costs and meet other requirements. Properly reimbursed expenses are deductible by an employer and excludable from an employee's income. They also generally aren't subject to payroll taxes.

KNOW THE CONSEQUENCES

Remote workers and their employers need to understand the tax implications they may face. You may or may not be able to minimize negative tax consequences, but it's still important to know what to expect. ■

NEW HIGH-LOW TRAVEL PER DIEM RATES

The "high-low" per diem method is a simplified way to reimburse employees who travel for your business compared to tracking actual business travel expenses. For most areas within the continental United States, the per diem rate for October 1, 2025, through September 30, 2026, is $225 ($151 for lodging and $74 for meals and incidental expenses). For "high-cost" locations within the continental United States, the per diem rate is now $319. That breaks down to $233 for lodging and $86 for meals and incidental expenses.

However, certain locations are considered high-cost areas only on a seasonal basis. And the high-cost locations and dates change somewhat from year to year.

Businesses that use per diem rates typically don't require employees to provide receipts for travel expenses. They must, however, still substantiate the time, place and business purpose of the travel.

Reimbursements made on a per diem basis aren't generally subject to income or payroll tax withholding. They also aren't reported on the employee's Form W-2. Note that per diem rates can't be paid to individuals who own 10% or more of the business. Contact us for guidance on using the high-low per diem method and to obtain a current list of high-cost areas and dates. ■