

One Big Beautiful Bill Act for Podiatrists

Here's what you need to know about this law.

BY MARK E. BATTERSBY

The new Budget Reconciliation law, the so-called “One Big Beautiful Bill Act” (OBBBA), contains its fair share of practice-related tax breaks. The OBBBA, impacts not only tax bills but also Medicare physician fees and reimbursements. While some provisions, such as the temporary Medicare Physician Fee Schedule (PFS) increase may appear to be beneficial initially, the overall impact of this bill could be substantial and detrimental to physician finances.

Physician Fees

The OBBBA sets a new, lower growth rate for Medicare physician fee schedule (PFS) payments, effectively limiting potential increases in the future. However, included is a temporary 2.5% increase to the Medicare physician fee schedule—but only for 2026.

There is an update to the PFS “conversion” factors which will affect payments for both qualifying and non-qualifying participants in Alternative Payment Models (APMs). The

work requirement and substantial Medicaid funding cuts may also impact the reimbursement rates for the physicians who treat those patients.

The OBBBA significantly changes how the states can utilize provider fees to fund their Medicaid programs. This could, potentially, lead to adjust-

extending and, once again, making permanent—many of the temporary tax cuts of the 2017 Tax Cuts and Jobs Act (TCJA).

While the OBBBA complicates the tax rules in several ways, sending many podiatrists and their tax return preparers through a maze of

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ments in physician reimbursement rates in those states. On the plus side, however, the new legislation made a number of changes to the federal tax laws that will benefit many podiatrists and their practices.

A Changing Tax Picture

The OBBBA retains—permanently—the 21% tax rate for incorporated practices and businesses. It prevents an over \$4 trillion tax hike from occurring at the end of this year by

new rules and compliance costs, the benefits may outweigh the confusion. A good example is a change that will impact many practices operating as pass-through entities.

Pass-Through Podiatry Practices

The 2017 TTCJA was originally created to reduce taxes, simplify the tax code, and stimulate economic growth. The TCJA did lower income tax rates overall and included an in-

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creased deduction for the income of pass-through business entities.

Under the OBBBA, there was a more favorable tax bite for the income of pass-through practices and businesses operating as sole proprietorships, partnerships, and S corporations, which is now in effect—permanently.

The OBBBA makes permanent the deduction for podiatry practices operating as pass-through entities, allowing a deduction of up to 20% of their qualified practice income (plus 20% of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income).

The new law also creates an inflation-adjusted minimum deduction of \$400 for taxpayers with at least \$1,000 in qualified business income. This was included to ensure that eligible principals in small practices and business owners can access an enhanced baseline deduction.

Partnerships

The tax rules have long required services and property transfers (or disguised sales) that often occur between a partner and his or her partnership to be conducted at “arms-length.” Under the rules, a partner engaging in a transaction with a partnership other than in his or her capacity as a partner is treated as if they were not a member of the partnership,

Included in this rule are transactions such as loans of money or property by the partnership to the partner or by the partner to the partnership, the sale of property by the partner to the partnership, the purchase of property by the partner from the partnership, and the rendering of services by the partnership to the partner or by the partner to the partnership.

However, transfers of money or property by a partner to a partnership as “contributions,” or transfers of money or property by a partnership to a partner as “distributions,” are not included because transactions must be at “arm’s length.” What’s more, in every case, the substance of the transaction will govern, rather

than its form, and the OBBBA has added a new wrinkle.

The OBBBA rules now add a technical clarification, a simple “except as provided,” by the Treasury Secretary that will expand those rules and make them apply unless there is guidance that can provide an exception. The clarification applies to services performed and transactions occurring from now on.

lated tax provisions. Properties and other assets that fall under the tax law, including green energy producing assets, recycling, and storage will no longer be considered five-year properties for depreciation purposes.

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Depreciation Write-Offs

One of the key elements of the 2017 TCJA was a 100% bonus depreciation write-off that allowed professional practices and businesses to immediately deduct the full cost of business or practice-related equipment. The intent was to galvanize capital spending which many experts believed would improve productivity and growth.

Unfortunately, that 100% deduction has been reduced, year-after-year, making it of less and less value. Today, the full, 100% bonus depreciation deduction is back. What’s more, the deduction will apply through 2029 for property acquired after January 19, 2025.

In addition to bonus depreciation, the OBBBA doubles the current Section 179 first-year expensing deduction for equipment and other asset purchases, from \$1,250,000 to \$2,500,000. Also increased is the ceiling on the amount of asset purchases which can be made before the Section 179 write-off must be reduced from the current \$3,130,000 to \$4,000,000. In other words, the full deduction would be phased out should the podiatry practice’s equipment or other asset purchases reach the \$4,000,000 ceiling. The increases will take effect for the 2025 tax year.

Energy Deductions Lack Longevity

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the five-year depreciation; others will be required to depreciate assets and properties over longer periods, resulting in smaller depreciation expenses in earlier years.

Many of the tax credits that were designed to spur investments in energy-conserving property were signaled out in the OBBBA. Those new provisions impact:

* *The Section 45W, Qualified Commercial Clean Vehicle tax credit* that was originally designed to incentivize the purchase of vehicles for commercial use by offering a write-off of up to \$40,000 per vehicle. This credit will be terminated for any vehicles acquired by a practice or business after September 30, 2025.

* *The New Clean Vehicle Credit, also known as the Section 30D credit*, allowed a tax credit, a direct reduction of the tax bill of up to \$7,500 for the purchase of eligible, new plug-in electric vehicles (EVs) and fuel cell electric vehicles (CEVs). Once available to individuals and businesses, it will also be terminated after September 30, 2025

* *The Section 25E, Used Clean Vehicle Credit*, for qualified used EVs or fuel cell vehicles priced at \$25,000 or less, will see the tax credit that once equaled 30% of the price, up to a maximum of \$4,000, terminated after September 30, 2025.

* *The Section 30C, Alternative Fuel Vehicle Refueling Property Tax Credit* offered a tax credit equal to

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30% of the cost of installing qualified alternative fuel for refueling property. It, too, will also be terminated, but only for refueling property placed in service after June 30, 2026.

Those podiatrists or practices that construct, improve, or design the building they own to be energy efficient may continue to qualify for the Section 179D, deduction for energy efficient commercial buildings. Under the OBBBA, this credit won't terminate for any property for which construction began before June 30, 2026. So, it remains an invaluable deduction for making the building housing the practice more energy efficient—with a financial boost from a lower tax bill.

Overtime Not Only for Workers

Unless exempt, employees covered by the Fair Labor Standards Act (FLSA) must receive overtime pay for hours worked over 40 in a workweek at a rate not less than time and one-half their regular rates of pay. Individuals who are properly classified as executive, administrative, or professional employees are considered "exempt employees" and aren't required to be paid for overtime.

After a failed attempt to increase the minimum threshold for the overtime exemption, it has reverted to \$35,568 per year (\$484 per week). Employees earning below this threshold are generally entitled to overtime pay.

Now, however, the OBBBA has created a new tax deduction for the overtime pay received by employees who are not exempt. Workers making less than \$150,000 annually can deduct as much as \$12,500 for single filers and \$25,000 for those filing jointly.

Unfortunately, this deduction begins to phase out for single filers earning \$150,000 or more, and for joint filers earning \$300,000 or more, and will expire in 2029.

The podiatry practice, the employer, must do more than merely pay overtime where it is required since it is still considered as wages for FICA tax purposes. In other words, the wages are still subject to Social Security and the Medicare tax.

However, under the new rules, workers can only deduct overtime that is reported as overtime on information returns, such as Form W-2.

This year, 2025, is a "transition year" that allows employers to approximate overtime using a "reasonable method." Starting in 2026, employers must report qualified overtime separately on Forms W-2 and Form 1099.

While there will likely be updated IRS withholding tables and changes to Forms W-2, 1099 and W-4, the uncertainty about how employers can distinguish "qualified" vs. "general" overtime may continue to be impacted given the varying state labor laws.

Research and Development

Research and development (R&D) expenses for podiatrists. Activities that involve the development, design, or improvement of products, processes, techniques, formulas, or software can qualify for the R&D tax credit.

domestic R&D expenses in tax years beginning on or after January 1, 2022, and before January 1, 2025, to elect to deduct any remaining unamortized amount over a one-period or ratably over a two-year period (at the taxpayer's election), accelerating the benefit of such expenses.

Student Loans

Those federal student loans designed to help graduate and professional students finance their education have seen significant changes. Unlike some other federal student loans, Grad Plus loans are not based on financial need. Unfortunately, the Grad PLUS program and subsidized Stafford loans for graduate and professional students will be terminated beginning in July 2026.

For students in graduate and professional studies, new annual and lifetime loan limits will be imposed after July 1, 2026. The annual graduate loan is capped at \$20,500 for gradu-

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To be labeled as R&D, the activities must be technological in nature, rely on principles of physical, biological, computer science, or engineering, aim to eliminate uncertainty in development, and involve a process of experimentation.

The TCJA required all taxpayers to capitalize and amortize certain R&D expenses over five years. The OBBBA now allows podiatrists to deduct (rather than capitalize) domestic R&D expenses paid or incurred in tax years beginning on or after January 1, 2025.

In addition, eligible, smaller professional practices and businesses, defined as any corporation or partnership whose average annual gross receipts for the last three tax years didn't exceed \$31 million, can choose to retroactively expense domestic R&D costs paid or incurred beginning in tax years starting on or after January 1, 2022.

Finally, the OBBBA permits all taxpayers who paid or incurred do-

ate students and \$50,000 for professional students. The aggregate limit is capped at \$100,000 for graduate students and \$200,000 for professional students. Also capped are all federal student loans when they reach \$257,500.

SALT

According to many economists, the deduction for state and local taxes (SALT) is a key factor in the OBBBA. The OBBBA temporarily raises the federal deduction limit for state and local taxes (SALT) to \$40,000 up from the current \$10,000.

This increased cap on the SALT deduction is in effect from this year (2025) through 2029. Beginning in 2026, the deduction will increase by 1% until reverting to \$10,000 in 2030. Unfortunately, that increased SALT deduction is subject to a phase-out for high-earners.

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The phase-out begins to phase out when the taxpayer’s modified adjusted gross income (MAGI) reaches \$500,000 and increases by 1% annually through 2029. The deduction is reduced by 30% of the amount by which the MAGI exceeds the threshold. Fortunately, the deduction will not fall below the original \$10,000 cap, even with the phase-out.

New Life for the Death Tax

The tax law’s so-called “unified credit” allows individuals to transfer wealth without incurring federal estate and gift taxes up to a specified limit. Similarly, the gift and generation skipping transfer tax (GSTT) exemption allows transfers to certain future generations without incurring additional tax. The OBBBA permanently increased the estate, gift, and generation skipping transfer tax (GSTT) exemptions.

Raising the exemption amounts to \$15 million will allow podiatrists and others to pass greater amounts to others as either gifts or inheritance without incurring a tax bill—beginning in 2026 when the new exemption limits kick-in.

The Bottom Line

The OBBBA has streamlined and simplified the tax rules, promoting standard deduction use and itemizing, making investment and business tax planning easier. Reducing or removing many of the provisions that caused complexity will allow podiatry practices and many small businesses to file their taxes faster and easier.

New rules for the charitable donations of incorporated practices and businesses might discourage smaller, routine donations and encourage larger, more substantial contributions. Beginning in 2026, deductions for charitable giving will have a new 1% floor, and only con-

tribution amounts above that will be deductible. The 10% ceiling remains although contributions exceeding the 10% limit can be carried forward for up to five years.

Other changes—new deductions and technical modifications—will obviously require podiatrists to adjust their tax strategies. In addition to monitoring further developments, seeking professional assistance can help with both planning and reaping the potential tax savings. PM



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