

# The Tax-Efficient Operator

July 2025 Issue-1

*The latest tax guidance for growth-minded business owners and high-net worth individuals.*

## INSIDE THIS ISSUE

### Changes to QOZs

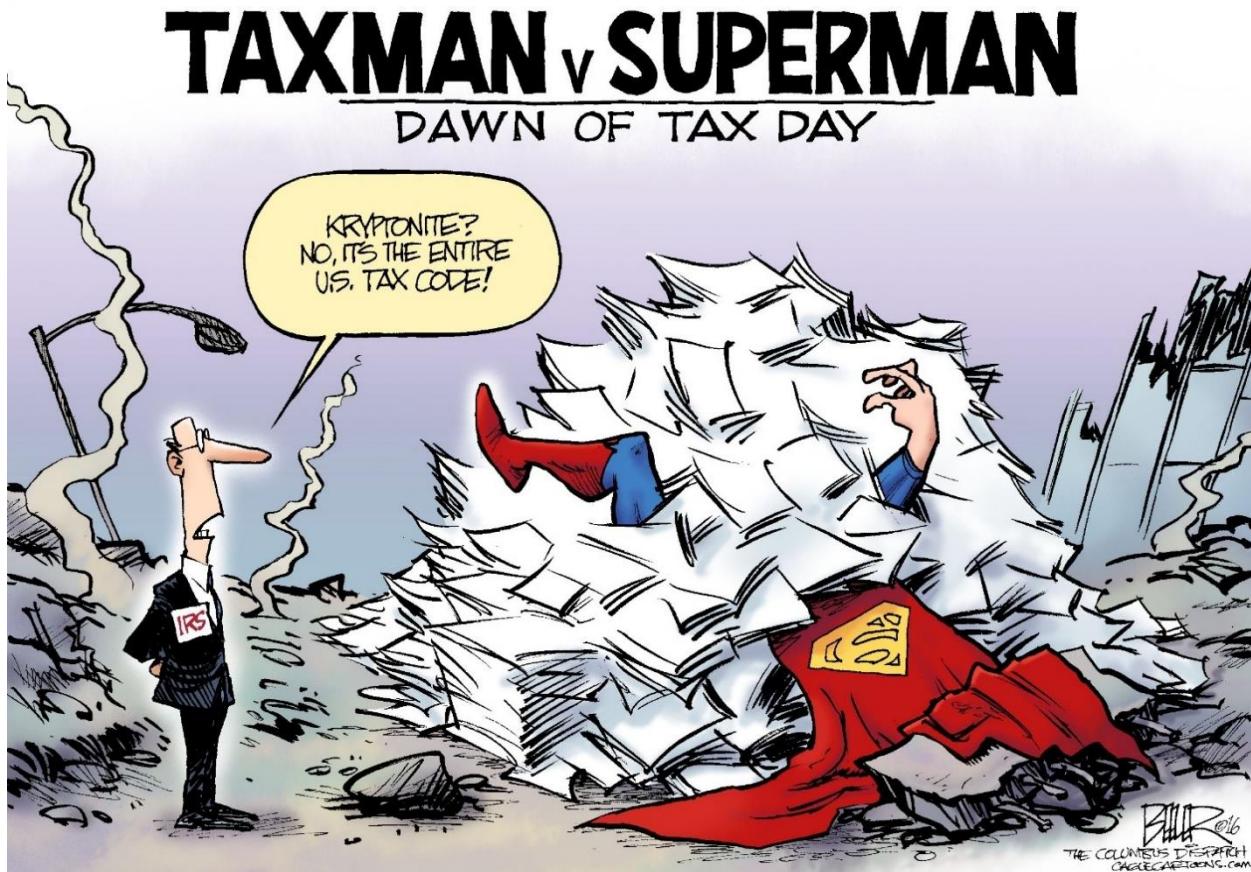
See how the qualified opportunity zone regulations could benefit your company

### OBBA Itemized Deduction Updates

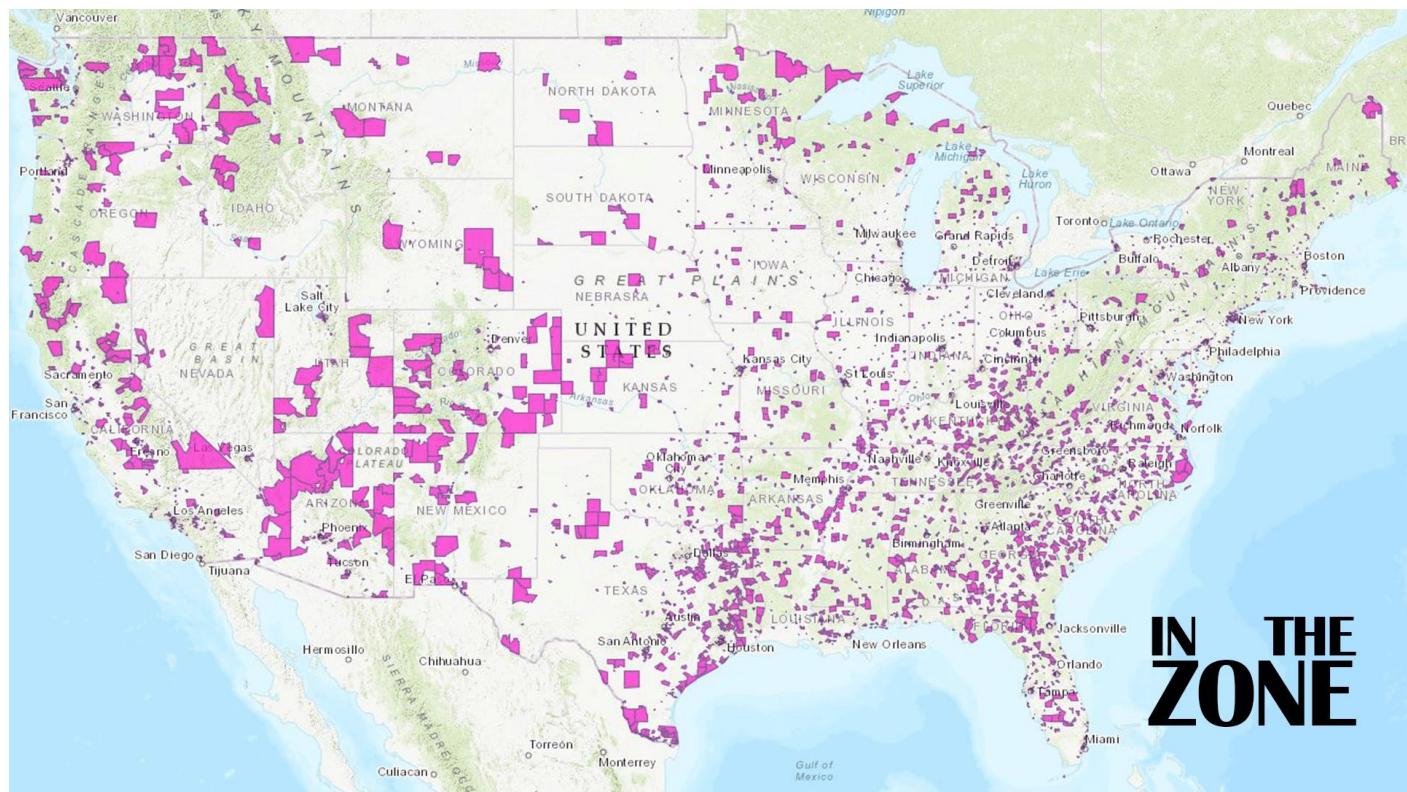
Several major changes have been made to personal itemized deductions. Review the effects.

### Changes to Sec.1202 QSBS

The most lucrative tax regulations in the IRS tax code, read what changed



## The Tax-Efficient Operator



# Qualified Opportunity Zone (QOZ) Tax Strategies

By Honeycutt Financial Solutions LLC

The landscape of tax-advantaged investing has just undergone a revolutionary transformation. On July 4, 2025, President Trump signed the One Big Beautiful Bill Act (H.R. 1) into law, fundamentally reshaping the Opportunity Zone (OZ) program and creating unprecedented opportunities for both business owners and high-net-worth individuals to optimize their tax strategies through 2028 and beyond.

As your trusted tax advisory partner, I'm excited to share how these changes create immediate planning opportunities for the next three years while positioning you for long-term wealth preservation and growth.

The One Big Beautiful Bill Act has transformed Opportunity Zones from a temporary tax incentive into a **permanent cornerstone of U.S. tax planning strategy**. Here are the most significant changes that will impact your tax planning:

### 1. Permanent Program Structure

- **Current Program Extension:** The existing OZ program continues through December 31, 2026
- **New Permanent Framework:** Beginning January 1, 2027, OZs become a permanent tax incentive with rolling 10-year designation cycles
- **Decennial Renewals:** States will redesignate zones every 10 years, starting July 1, 2026, with new zones effective January 1, 2027

### 2. Enhanced Rural Investment Incentives

The legislation introduces **Qualified Rural Opportunity Funds (QROFs)** with extraordinary benefits:

- **30% basis step-up** after five years (triple the standard 10% step-up)
- **Reduced improvement threshold:** Only 50% substantial improvement required (versus 100% for standard zones)

- **Rural zone requirements:** At least 33% of all designated zones must be in rural areas

### 3. Simplified Deferral Structure

- **Rolling five-year deferral:** Capital gains invested after December 31, 2026, receive a consistent five-year deferral period
- **Standardized timeline:** All post-2026 investments follow the same deferral schedule, eliminating complex timing considerations

### 4. Strengthened Reporting and Compliance

- **Enhanced transparency:** New reporting requirements for both QOFs and investors beginning in 2027
- **Penalty structure:** \$10,000 penalties for non-compliance, doubled for intentional violations

## **Strategic Planning Opportunities for Business Owners**

### **Year 1 - (2025): Immediate Action Required:**

#### **Capital Gains Harvesting Strategy**

Business owners should consider realizing capital gains in 2025 to maximize benefits under the current program structure. The existing program still offers:

- **Immediate deferral** until December 31, 2026
- **10% basis step-up** at five years (for investments made by December 31, 2021)
- **15% basis step-up** at seven years (for investments made by December 31, 2019)
- **Complete tax-free treatment** for gains held 10+ years

**Example Scenario:** A business owner selling commercial real estate with \$2 million in capital gains can defer approximately \$600,000 in federal taxes by investing in a QOF before the 180-day deadline expires.

### **Year 2 - (2026): Transition Planning:**

#### **The "Sweet Spot" Strategy**

2026 presents unique timing considerations. Business owners receiving K-1 gains late into 2026 may benefit from waiting until 2027 to invest, capturing the new five-year rolling deferral rather than the abbreviated current program timeline.

#### **Business Sale Optimization Strategy**

For business owners planning exits, timing the sale for early 2027 allows access to the new permanent program structure with enhanced rural incentives if applicable.

### **Year 3 (2027): New Program Launch**

#### **Rural Business Development**

The enhanced rural incentives create compelling opportunities for business owners in qualifying areas:

- **Manufacturing facilities** in rural zones benefit from 30% basis step-up
- **Agricultural operations** can leverage reduced property improvement thresholds
- **Energy projects** in rural areas receive preferential treatment
- 

## **High-Net-Worth Individual Strategies**

### **Portfolio Diversification Through OZs**

**Real Estate Investment Transition** - High-net-worth individuals can leverage OZs for portfolio rebalancing:

- **Geographic diversification:** Invest in emerging markets through designated zones
- **Asset class rotation:** Move from overvalued markets to development opportunities
- **Intergenerational wealth transfer:** Establish family QOFs for multi-generational tax benefits

## Estate Planning Integration

**QOF Inheritance Benefits** - The permanent nature of the program creates new estate planning opportunities:

- **Stepped-up basis** at death eliminates deferred gain recognition
- **Generation-skipping** strategies through long-term QOF holdings
- **Dynasty trust integration** for perpetual tax-free growth

## Three-Year Tactical Implementation

### Phase 1 (2025-2026): Foundation Building

- Establish diversified QOF portfolio under current rules
- Maximize current program benefits before transition
- Position for rural opportunity fund investments

### Phase 2 (2027-2028): Program Optimization

- Deploy capital into newly designated zones
- Leverage rural incentives for qualifying investments
- Implement enhanced reporting compliance systems

### Phase 3 (2029+): Long-Term Harvest

- Begin realizing tax-free gains on 10-year holdings
- Reinvest appreciation into new OZ opportunities
- Execute estate planning distributions

## Technical Implementation Considerations

### Investment Structure Requirements

#### Qualified Opportunity Fund Compliance:

- **90% asset test:** Maintain qualifying property investments
- **180-day investment window:** Critical timing for gain deferral
- **Equity investment requirement:** No debt instruments qualify

## Substantial Improvement Standards

**Traditional Zones:** 100% improvement requirement within 30 months

**Rural Zones:** 50% improvement requirement versus 100%, which creates more flexible development opportunities

**Reporting and Documentation:** The new compliance regime requires:

- **Annual QOF reporting** to Treasury Department
- **Investor annual statements** detailing investments and dispositions
- **Public disclosure** of fund activities (with sensitive information redacted)

## Risk Mitigation and Compliance

### Transition Period Challenges

### 2026 Investment Timing

The transition from current to new program creates potential "hibernation" periods where investment may be suboptimal. Our team will monitor legislative developments and provide updated guidance as implementation details emerge.

### Rural Designation Uncertainty

While the legislation mandates rural zone percentages, Treasury Department guidance will determine specific tract eligibility. We recommend establishing flexible investment structures that can adapt to final regulations.

Why Partner with Honeycutt Financial Solutions LLC? The complexity of these OZ changes requires sophisticated tax planning expertise. Our firm brings:

#### Integrated Tax Services

- **Business tax planning** aligned with OZ investment strategies
- **Estate planning coordination** for multi-generational wealth transfer
- **Compliance management** for complex reporting requirements

#### Proactive Planning Approach

- **Real-time monitoring** of regulatory developments
- **Strategic timing optimization** for maximum tax benefits
- **Risk assessment** and mitigation strategies

### Next Steps: Your Opportunity Zone Action Plan

#### Immediate Actions (Next 30 Days)

1. **Schedule a consultation** to assess your current capital gains exposure
2. **Review existing investments** for potential OZ optimization opportunities
3. **Evaluate rural business interests** for QROF qualification potential

#### Medium-Term Planning (2025-2026)

1. **Develop investment timeline** aligned with program transitions
2. **Establish QOF structures** for optimal tax benefit capture
3. **Implement compliance systems** for enhanced reporting requirements

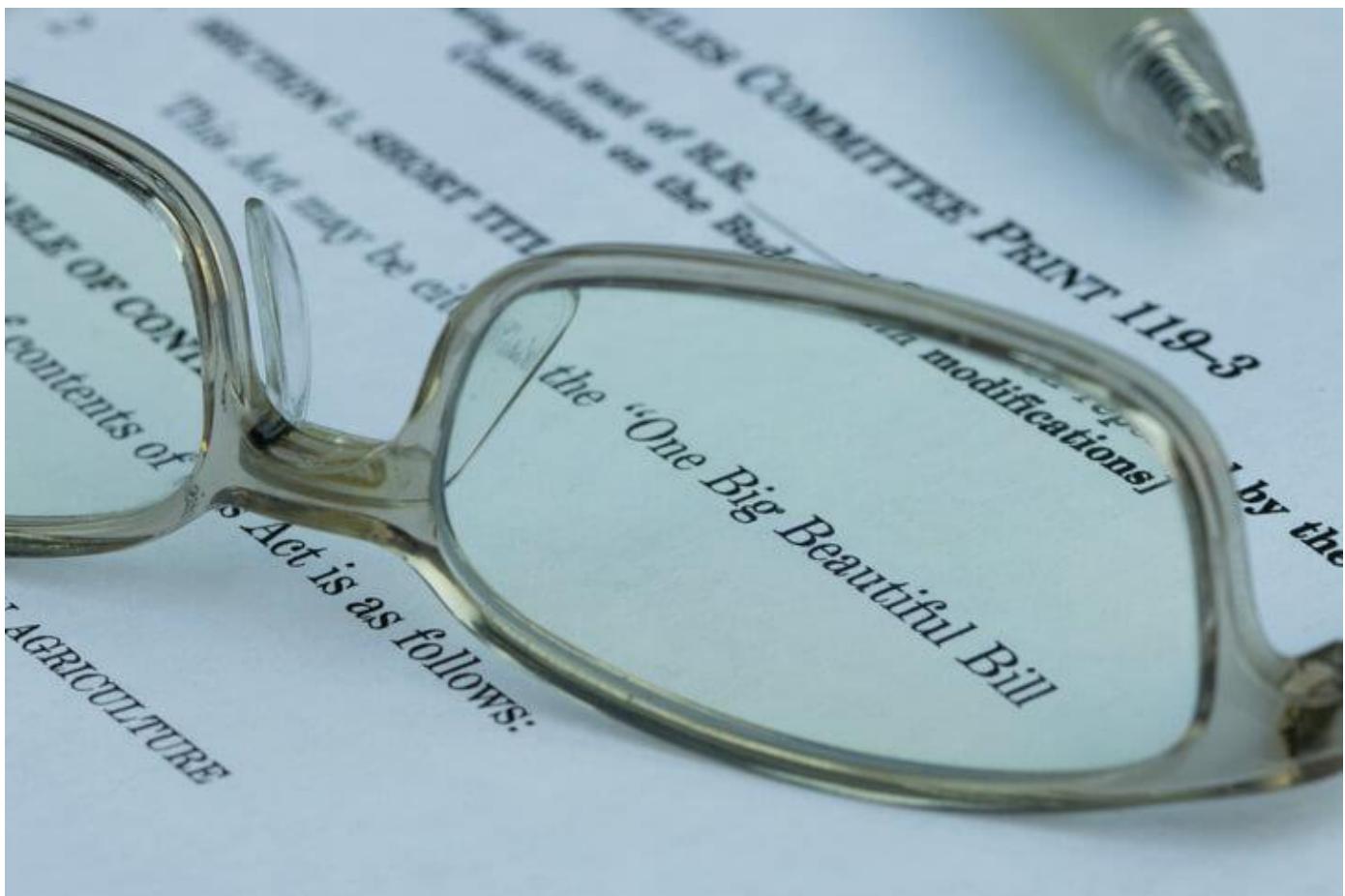
#### Long-Term Wealth Strategy (2027+)

1. **Execute permanent program investment** strategies
2. **Optimize rural incentive** utilization
3. **Integrate estate planning** with OZ tax benefits

### Conclusion: Seizing the Moment

The One Big Beautiful Bill Act represents the most significant expansion of tax-advantaged investing opportunities in decades. The combination of permanent program status, enhanced rural incentives, and simplified deferral structures creates a powerful tool for wealth preservation and growth.

However, the complexity of these changes and the critical timing considerations require expert guidance. The difference between optimal and suboptimal implementation can mean hundreds of thousands or even millions in tax savings over the program's lifetime.



# Strategic Tax Update: Itemized Deductions & Planning Opportunities After the One Big Beautiful Bill Act (HR1)

By Honeycutt Financial Solutions LLC

HONEYCUTT FINANCIAL  
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The recent passage of the One Big Beautiful Bill Act (HR1) represents the most sweeping revision to the federal tax code in years. For business owners and high-income individuals, the changes especially to itemized deductions—enhanced limits, modified phaseouts, and nuanced opportunities—create both fresh benefits and new planning territory.

This special report summarizes the critical updates, provides actionable insights for tax-saving strategies over the next three years, and underscores how the Honeycutt Financial Solutions team can help you capture the maximum value from these legislative changes.

## Key Changes to Itemized Deductions in the HR1 Act

### **1. State and Local Tax (SALT) Deduction**

Raised Limit: The annual SALT deduction cap has increased from \$10,000 to \$40,000 for tax years 2025–2029. This cap will adjust upward by 1% each year after 2026 until 2029. In 2030, it reverts to \$10,000.

**Phaseout for High Earners:** For taxpayers with Modified Adjusted Gross Income (MAGI) above \$500,000 (\$250,000 for married filing separately in 2025), the allowable deduction reduces by 30% of the excess above that threshold. **Example:** If your MAGI is \$600,000, the maximum allowed deduction drops by \$30,000 (30% of \$100,000 excess).

## 2. Itemized Deduction Limits & Pease Limitation Replacement

**New Reduction Formula:** The HR1 permanently repeals the Pease limitation and introduces a two-pronged phaseout:

- **First Prong:** Section 164 (SALT, GST tax) deductions are reduced by 5/37ths of the amount above the top 37% tax bracket income threshold.
- **Second Prong:** Other itemized deductions (excluding SALT) are reduced by 2/37ths of the amount above the same high-income threshold.

Unlike previous law, more high-income earners will see their itemized deductions trimmed, but the clear formulas and higher SALT caps provide manageability and, for some, increased ability to deduct.

## 3. Mortgage Interest and Other Notables

**Home Mortgage Interest:** The limit of \$750,000 in mortgage debt for interest deductibility is made permanent. Older debts pre-dating December 15, 2017, maintain the previous \$1 million cap.

## 4. Miscellaneous Itemized Deductions: Most remain disallowed except for educator expenses.

## 5. Standard Deduction Adjustments

**Raised Standard Deduction:** For 2025, the standard deduction rises by \$750 for single filers and \$1,500 for joint filers, with adjustments for inflation in later years. Itemizers can still pursue deductions if these exceed the new standard threshold.

# Strategic Planning Opportunities & Situational Analysis

## For Business Owners:

**Optimal Entity Structure:** With the Section 199A QBI deduction made permanent and increased phaseouts, S-corps and LLCs taxed as partnerships remain highly efficient structures for maximizing deductible income.

**SALT Cap Solutions:** The higher \$40,000 SALT cap allows greater state tax payments to flow through as deductible, especially beneficial in high-tax states. For partnerships and S-corps, planning distributions and state tax payments can further enhance benefits.

**Year-End Acceleration:** Accelerate eligible deductible payments pre-phaseout. Example: If near a MAGI threshold, defer certain business income, accelerate deductible expenses, or make strategic retirement contributions to stay below phaseout cliffs.

## For High-Net-Worth Individuals:

**Charitable Planning:** With other deductions facing phaseouts, strategic charitable giving—including donor-advised funds and charitable LLCs—remains powerful. Timing and funding methods matter to ensure full deductibility within new limits.

**Mortgage Optimization:** Consider potential refinancing or using “pre-December 2017” mortgages to maximize interest deduction; for new purchases, be mindful of the \$750,000 limit.

**SALT Workarounds:** While the bill does not curb state pass-through entity tax workarounds, planning entity-level taxes in states that authorize them can further increase effective deductibility.

### 3-Year Timeline of Major Effects

Year	SALT Deduction Cap	High Income Phaseout Threshold (MAGI)	Notable Strategy
2025	\$40,000	\$500,000	Bunch state/local taxes
2026	\$40,400	\$505,000	Aggressive charitable giving
2027-2029	+1% per year	Indexed by 1% annually	Monitor phaseouts/income
2030+	\$10,000	n/a	Revert to legacy limits

### Real-World Example Scenarios:

**Business Owner (S-Corp, High Tax State):** A California S-Corp owner earns \$450,000 and usually pays \$36,000 in state/local taxes.

**Under New HR1:** Full amount now deductible (vs. previous \$10,000 cap), saving upwards of \$10,000+ per year in federal tax versus 2024 law. Thus, [consider prepayment or “bunching” property taxes for maximum benefit under temporary higher cap](#). An investor with \$700,000 MAGI and \$40,000 in itemized deductions where most itemized deductions are state taxes, faces a significant phaseout. [Plan strategic charitable contributions to avoid the 5/37 and 2/37 reductions](#). Evaluate shifting investment income to years with lower total income to mitigate phaseouts.

## Schedule Your Strategic Planning Session Today

Contact Honeycutt Financial Solutions LLC to develop your personalized Opportunity Zone strategy:

 **Phone:** 251-979-3800

 **Email:** hampton@hfsadviser.com

 **Office:** 505 20<sup>th</sup> St., North, Suite 1220, Birmingham, AL 35203

### Services Include:

- Personal Tax Planning and Strategy Consulting
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- Sell-Side and M&A Consulting
- Compliance and Reporting Management
- Estate Planning Integration

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