Tax Changes Ahead

Preparing for What's Next

BerryDunn

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Presenters

Joe Byrne

CPA*

Senior Manager | Berry, Dunn, McNeil & Parker, LLC

Kristin Courtemanche

CPA*

Senior Manager | Berry, Dunn, McNeil & Parker, LLC

Matthew Litz

JD, LLM, CPA*

Principal | Berry, Dunn, McNeil & Parker, LLC

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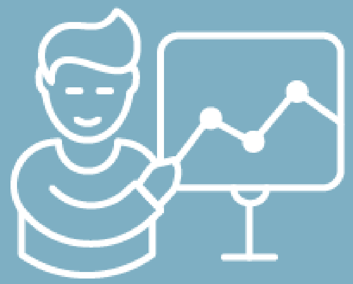
Learning objectives



By the end of this presentation, you will have an understanding of:

- Tax-exempt IRS updates and proposed tax policy changes
- For-profit proposed tax policy changes
- Maine paid leave law

Polling question #1

Section 1

A View from the Hill –
TEGE perspective

IRS updates

FY2024 IRS (TEGE) statistics/updates

Examinations:

- 3,239 examinations started, 1,955 closed
  - Significant decline in closed exams – 2,464 closed in FY2023
  - Change Rate of close examinations: 74.5% (76% in FY2023)
  - Breakdown of Change Rate:
    - Compliance Strategies (ex. Hospital 501(r) compliance, 990-N eligibility): 64.7%
    - Data-Driven Approaches (ex. Data queries based on Form 990s submitted): 67.2%
    - Referrals and Claims (ERC, Whistleblowers, etc.): 79.5% Change Rate – significant increase likely driven in large part by ERC claims

IRS updates

FY2025 IRS (TEGE) Priorities (PRE-DOGE)

Hospitals:

- 501(r) Compliance (Hospitals) – HIGHLY ACTIVE
  - IRS currently has heightened focus on all aspects of 501(r) regulations.
    - Community Health Needs Assessments and Financial Assistance compliance are major focuses for exams.
  - Examinations are currently active and ongoing…
    - Examinations are taking a long time to close out now due to IRS cuts (1 year +).
  - New for FY25: Guidance illustrating the application of 501(r) regs is expected.
- Community Benefit Standard
  - Congress (bipartisan) is continuing to scrutinize amount of community benefit provided by hospitals when compared to tax benefits received from tax-exemption.
  - Data largely driven from Form 990, Sch H, Part I, Line 7 table.
  - Illustrates the need for comprehensive community benefit reporting.

IRS updates

FY2025 IRS (TEGE) Priorities (PRE-DOGE)

- Majority of other initiatives are a continuation from previous years:
  - Regulations around allocation of indirect expenses to multiple UBI activities
  - Regulations around allocation of Net Operating Losses for UBI activities
  - Donor Advised Funds (DAFs):
    - Final Regulations under IRC 4966 related to DAF excise taxes on sponsoring organizations
    - Regulations under IRC 4967 related to prohibited benefits from DAFs, including potential excise taxes on donors
    - Regulations under IRC 4958 on DAFs and supporting organizations
    - Guidance on the public Support computation for distributions from DAFs
- UBI and Employee Classification continue to be IRS "greatest hits"
- No movement on any of the above as of yet – effects of DOGE? Stay tuned!

Latest News: House GOP Releases Proposed Bill 5/12/25

Highlights

- UBI considerations for Tax-Exempt organizations
- Updates to Executive Compensation
- TCJA provisions to be extended
  - 100% bonus depreciation
  - 163(j) interest expense limitation
- Energy Credits repealed
- ERTC updates

Section 2

A View from the Hill – For-profit perspective

Passthrough entity considerations

Changing tax policy

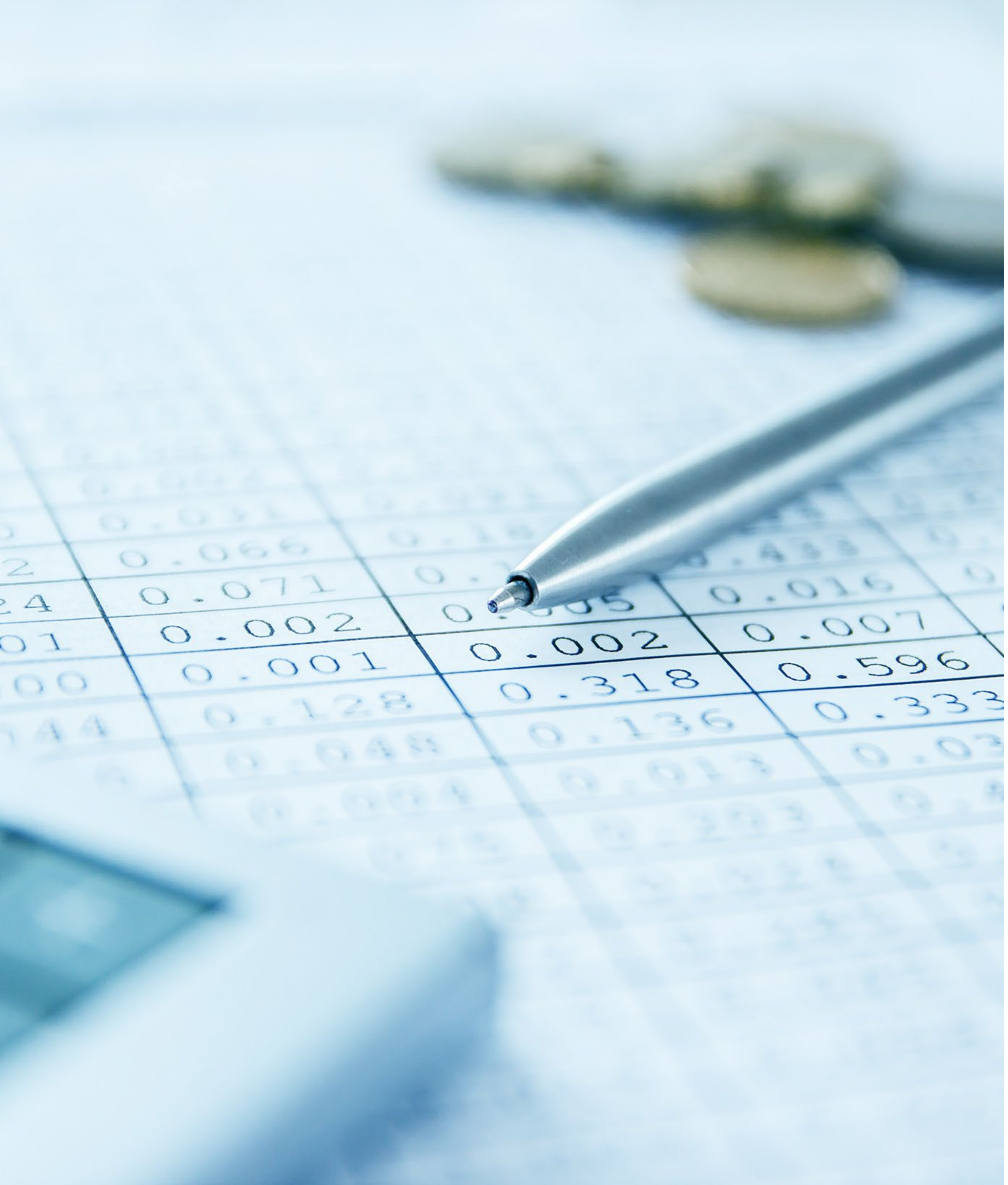
- Survey conducted by BDO provided that potential decrease in corporate income tax rate is top of mind for businesses
- Expect increase in LLC/S-Corp vs. C-Corp analyses

Increased IRS enforcement

- Passthrough entity owners should ensure due-diligence during any M&A transactions

Employment tax disputes

- Passthrough entities more susceptible to employment tax-related disputes, especially partnerships related to partners' SE income
- Active vs. passive participation analysis



President Trump’s proposed tax policies

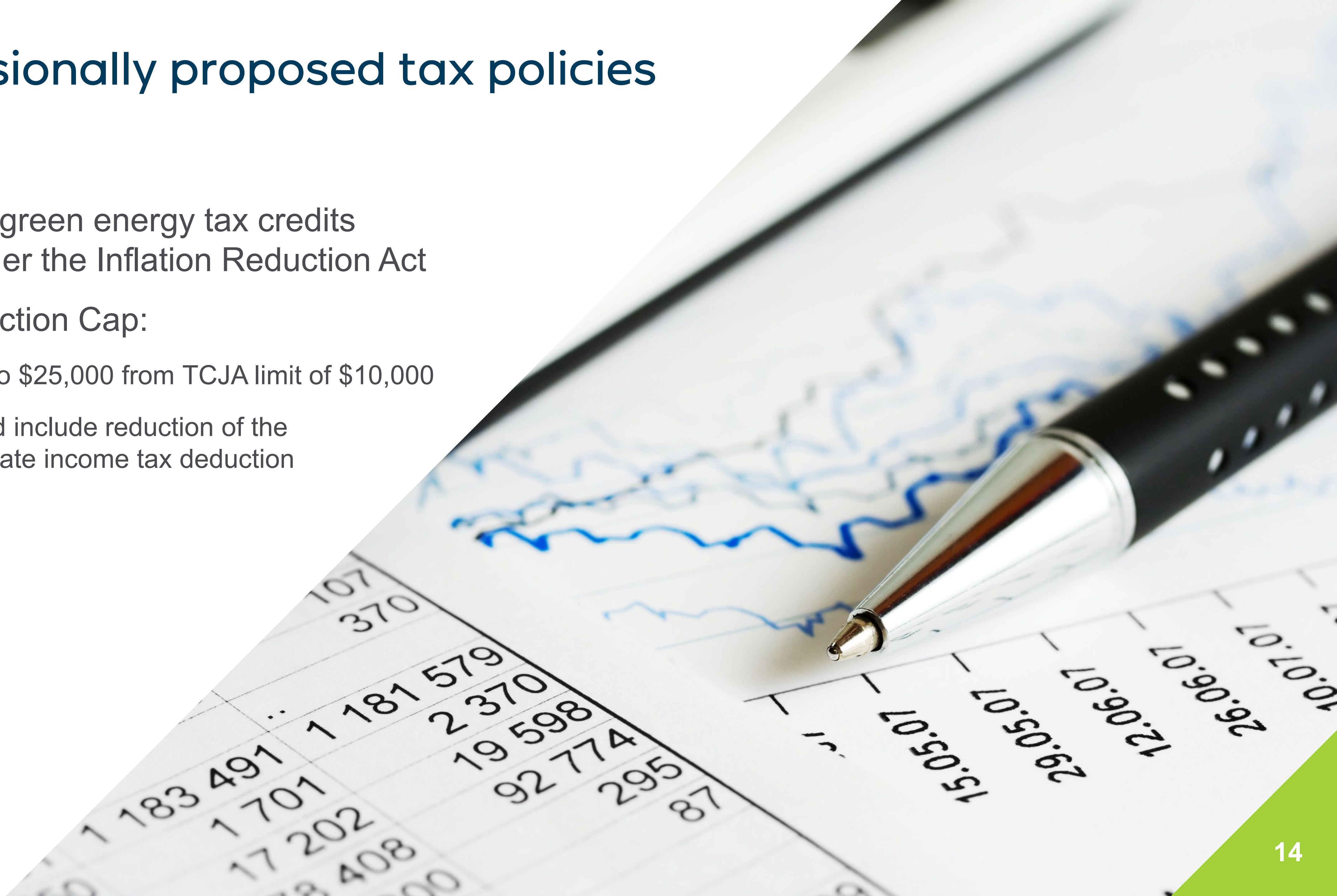
Highlights

- Corporate tax rate
  - Suggested should be dropped to 15% from 20%
  - May add to argument for passthrough entities to switch to C corps if corporate rate drops to 15%
- TCJA expiring 12/31/25 – unless made permanent
  - Qualified Business Income deduction – 20% -- has bipartisan support to extend
  - Interest expense limitation under 163(j)
  - Bonus depreciation – 60% in 2024; decrease 20% each year until 0% in 2027
  - Potential exception: highest marginal tax rate for individuals may return to 39.6% from 37% under the TCJA to help offset eliminating taxes on tips

Congressionally proposed tax policies

Highlights

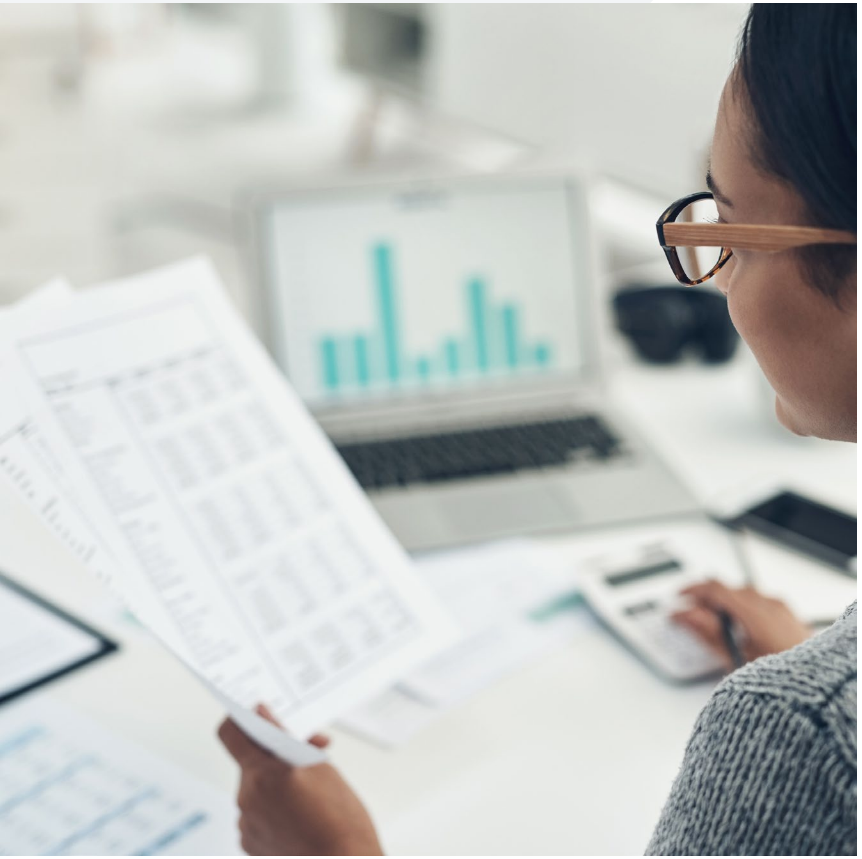
- Eliminating green energy tax credits created under the Inflation Reduction Act
- SALT Deduction Cap:
  - Increasing to $25,000 from TCJA limit of $10,000
  - Offset would include reduction of the corporate state income tax deduction



Polling question #2

State paid leave rules

Maine’s Paid Family and Medical Leave Law



- Requires contributions to state-run program
  - 1% of Social Security wages
  - Contribution may be split between employer and employee in certain cases
- Private plan exemptions
- Contributions effective – January 1, 2025
- Benefits effective – May 1, 2026

IRS Revenue Ruling 2025-4

Key takeaways

Scenario	Employer Tax Treatment	Employee Tax Treatment	Reporting Requirements
State-Mandated Employee (EE) Contributions to the State PFML Fund	N/A	Treated as income to the employee; subject to income, FICA, and FUTA taxes; a deduction may be taken by the employee as state income taxes if the taxpayer is itemizing; subject to the $10,000 SALT limitation	Report employee's contribution as gross income on their W-2
State-Mandated Employer (ER) Contributions to the State PFML Fund	May deduct the contribution as an excise tax	N/A	N/A
Employer (ER) Pick-up of required Employee (EE) Contributions to a State PFML Fund	May deduct the contribution as a necessary and ordinary business expense rather than an excise tax	Treated as income to the employee; subject to income, FICA, and FUTA taxes; a deduction may be taken by the employee for state income taxes if the taxpayer is itemizing; subject to the $10,000 SALT limitation	Amount picked up by the employer on behalf of the employee must be reported as gross income on the employee's W-2

This figure depicts the taxation of employer (ER) and employee (EE) PFML contributions and the associated reporting requirements.

1. Mandatory (i.e., required) employee contributions: considered employee payments of state income tax. The employee may deduct their contributions as state income taxes on their individual tax return.*

2. Required employer contributions: not considered taxable income to the employee and are not reported on the employee's W-2. The employer may deduct the contributions made on behalf of the employee as excise taxes.

3. When an employer voluntarily picks up all or a portion of an employee's otherwise required contributions, the amount of the pick-up is required to be included in the employee's gross income and reported on that employee's Form W-2. The contribution amount is subject to income, FICA, and FUTA taxes. Deduction for both employer and employee.*

State paid leave rules

Other states with paid leave mandates

Mandatory

California
Connecticut
Massachusetts
Maryland
New York
Washington
Colorado
Delaware
New Jersey
Oregon
Washington, D.C.
Rhode Island
Missouri

Voluntary

New Hampshire
New Mexico
Vermont

Questions?

Joseph Byrne, CPA

Senior Manager | Berry, Dunn, McNeil & Parker, LLC

207.541.2385
jbyrne@berrydunn.com

Kristin Courtemanche, CPA

Senior Manager | Berry, Dunn, McNeil & Parker, LLC

207.541.2224
kcourtemanche@berrydunn.com

Matthew Litz, JD, LLM, CPA

Principal | Berry, Dunn, McNeil & Parker, LLC

207.541.2361
mlitz@berrydunn.com