TaxUpdate

2025 YEAR END NEWSLETTER

What's New in 2025

here's plenty of tax changes this year with the passage of the One Big Beautiful Bill Act (OBBBA) that was signed into law this summer. Here's a look at several key areas that are new in 2025.

No tax on tips. Through 2028, you can deduct up to \$25,000 of qualified tips from your federal taxable income. This phases out when your income exceeds \$150,000 (\$300,000 for married couples).

No tax on overtime. Through 2028, you can deduct up to \$12,500 (\$25,000 for joint returns) for qualified overtime pay. This is also subject to phaseout above \$150,000 (\$300,000 for married couples).

Child tax credit increases to \$2,200 per qualifying child, up from \$2,000.

Seniors get an extra \$6,000 standard deduction through 2028. This deduction phases out between \$75,000 and \$175,000 for single taxpayers (\$150,000 and \$250,000 for married couples).

Increased state and local tax deduction. Up to \$40,000 of state and local taxes can be deducted if itemizing.

Electric vehicle tax credit expires on September 30, 2025. A tax credit of up to \$7,500 for buying or leasing new electric vehicles will end on September 30th.



New cryptocurrency reporting. Brokers of digital assets must now report sales and exchanges of digital assets to the IRS starting in 2025. This will be similar to the reporting of traditional security transactions like stocks, bonds and mutual funds.

Higher catch-up contributions for select ages. If you are age 60 thru 63, there is a special catch-up contribution this year. The normal catch-up contribution for those 50 and over in a 401(k) is \$7,500, but it moves to \$11,250 if you are age 60 to 63. With SIMPLE plans the normal catch-up is \$3,500, but it moves to \$5,250 if you are age 60 to 63.

Income Brackets for 2025 Tax Rates Head of Married Filing Tax **Married Filing** Rate Single Joint/Widow Household Separate \$1 - 11,925\$1 - 23.850\$1 - 17,000\$1 - 11,92510% 12% 11,926 - 48,475 23,851 - 96,950 17,001 - 64,850 11,926 - 48,475 48,476 - 103,350 22% 48.476 - 103.350 96.951 - 206.70064,851 - 103,350 24% 103,351 - 197,300 206,701 - 394,600 103,351 - 197,300 103,351 - 197,300 32% 197,301 - 250,525 394,601 - 501,050 197,301 - 250,500 197,301 - 250,525 250,526 - 626,350 | 501,051 - 751,600 | 250,501 - 626,350 | 250,526 - 375,800 35% Over \$626,350 Over \$375,800 37% Over \$626,350 Over \$751,600

Protect Your PII

Personally Identifiable Information, or PII, is information that identifies you or relates specifically to you. This includes your name, address, phone number, Social Security number, and financial data such as credit card and bank account numbers.

Federal agencies are now mandating that organizations who have PII of their clients and customers have a security plan to outline how they plan to protect this information. It's also a good idea for you, too. Here are some tips.

- Your tax information is key PII. As you can imagine, your tax information is loaded with data that's a target for thieves. So be aware of how you store this information. Also let vendors know you don't want your Social Security number exposed on any mailed forms like W-2s and 1099s.
- Know who has your PII. Know who has access to your personal data, and make intentional choices about who truly needs it. Close unused accounts and ask them to delete their records as soon as possible. Remember, this is not just your bank or health insurance. It includes any vendor that stores your credit card number for future transactions or anyone you autopay with a link to your bank account.
- Be watchful. As part of the federal requirements, most suspected security breach incidents are to be reported to you on a timely basis. But despite these requirements, this does not always happen. So be diligent, and take advantage of the free annual credit report from each of the major credit reporting agencies to double check for any suspicious activity.

15 Year-End Tax Tips

A t the end of each year there are a number of things to consider that may have a positive impact on your tax obligation. Here is a list of fifteen ideas that may be worth a quick review.

- Make last minute charitable donations. Pay attention to your itemized deduction limit to ensure your deduction will count.
- 2 Review and maximize use of the \$19,000 annual gift giving limit.
- 3 Review your investment portfolio for capital gains and loss planning.
- 4 Use your annual \$3,000 net capital loss limit to lower ordinary income if appropriate.
- Maximize the kiddie tax threshold rules (\$1,350 of unearned income is taxed at your child's lower tax rate).
- 6 Consider fully funding retirement accounts with your annual contributions.
- 7 Identify any potential household employees.
- 8 Consider donating appreciated stock owned one year or longer.

ontemporaneous means that the

records used to support a claim

on your tax return are created at the

same time as your claimed deduction.

In other words, if you realize you forgot

to get a receipt for something and try

to get one at a later date, the IRS may

disallow an otherwise valid deduction.

- <u>9</u> Review retirement accounts for required minimum distributions (RMD).
- Review medical and dependent care funding accounts to ensure you do not lose your contributions that expire.
- Consider retirement plan rollover options into Roth IRAs.
- Estimate your tax liability and make any estimated tax payments.
- Create a list of expected 1099s and other tax forms you will be receiving.
- Review your W-2 withholdings and file any changes with your employer for the upcoming year.
- Begin organizing your tax records. Should you have any questions about these ideas, ask for help prior to taking action. In many cases, the requirements and documentation needed are important to ensure you receive the full tax savings benefit.

mileage logs; tip records; gambling

contemporaneous, the receipt or

acknowledgement must be received

the earlier of either when you file your

tax return OR the due date (including

meet the IRS definition of

losses; & business travel expenses.

Taxable or Not Taxable?

Some of these items may surprise you

There are a number of areas in the tax code that cause confusion as to the taxability of money received. Here are some of the most common areas of confusion.

- Unemployment compensation. This is typically required to be reported as taxable income. So you could be facing a tax surprise if you received unemployment income this past year.
- Free services. Receiving free services is almost always taxable as ordinary income under IRS barter regulations. Report the fair market value of services received as income on your tax return.
- Jury duty pay. Yes, even doing your civic duty can be a taxable event.
- Legal settlements. Consider what the settlement replaces. If replacing a taxable item such as lost wages, a settlement often creates taxable income.
- Life insurance proceeds. This is paid to you because of the death of an insured. It is generally not taxable.
- Prizes. Most prizes received should be reported as ordinary income using the fair market value of the item.
- Child support. Child support is not taxable to the person who receives it on behalf of the dependent. It is also not deductible by the person who pays it.

Areas where the term contemporaneous is especially important include charitable contributions; business deductions for expenses and capital purchases; extensions) of your tax return. This is particularly true with charitable contributions. So if you want to play it safe, do not file your tax return until all documentation is in hand.

Tax Term You Need to Know: Contemporaneous

Key Retirement Plan Limits						
Retirement Plan	2025	2024	Change	Age 50 or older catch-up		
401(k), 403(b), 457 plans	\$23,500	\$23,000	+\$500	Add \$7,500*		
IRA: Traditional	\$7,000	\$7,000	,	Add \$1,000		
IRA: SIMPLE ^a	\$16,500	\$16,000	+\$500	Add \$3,500**		
IRA: Roth	\$7,000	\$7,000	recent	Add \$1,000		

- * For 2025, a higher catch-up contribution limit of \$11,250 applies for taxpayers ages 60 to 63.
- ** For 2025, a higher catch-up contribution limit of \$5,250 applies for taxpayers ages 60 to 63.
- Employees of eligible businesses can contribute up to \$17,600, with an age 50+ catch-up limit of \$3,850.

Standard Deductions					
Item 1997	2025	2024	Change		
Single	\$15,750	\$14,600	+\$1,150		
Married Joint/Widow	31,500	29,200	+\$2,300		
Head of Household	23,625	21,900	+\$1,725		
Married Filing Separate	15,750	14,600	+\$1,150		
Elderly/Blind: Married	+\$1,600	+\$1,550	+\$50		
Elderly/Blind: Unmarried	+\$2,000	+\$1,950	+\$50		
Extra Deduction, Age 65+	+\$6,000	+\$0	+\$6,000		

Maximum Earned Income Tax Credit					
1,00% - 1,00%	2025	2024	Change		
No Child	\$ 649	\$ 632	+\$17		
1 Child	4,328	4,213	+\$115		
2 Children	7,152	6,960	+\$192		
3+ Children	8,046	7,830	+\$216		