Tax News and Industry Updates

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2025 Tax Highlights

Passed on July 4, 2025, the One Big Beautiful Bill Act (OBBBA) made some significant changes to the Internal Revenue Code and permanently extended many provisions of the Tax Cuts and Jobs Act (TCJA).

This letter provides an update on some changes that might impact you and other things to be aware of. If you have questions or want more information on how these changes impact your specific situation, please do not hesitate to contact us.

Extension of TCJA provisions. Several provisions of the TCJA were made permanent, including:

- Increased standard deduction ($15,750 Single/MFS, $23,625 HOH, and $31,500 MFJ/QSS).
- The 20% qualified business income deduction has become permanent.
- Business expenses incurred by employees are permanently disallowed.
- The deduction for mortgage interest remains limited if acquisition debt is over $750,000.
- Interest on home equity loans is not deductible unless the funds were used to purchase a home or for improvements to the home.
- Moving expenses are not deductible except for members of the Armed Forces.
- Casualty losses are only deductible if attributable to a federally-declared disaster.

Deductions for non-itemizers. The OBBBA added additional deductions whether an individual itemizes deductions or not.

Deduction for seniors. Each individual age 65 and older may claim an additional deduction of $6,000. The deduction begins to phase out with modified adjusted gross income over $75,000 ($150,000 for joint filers).

No tax on tips. Employees and self-employed individuals may deduct up to $25,000 of qualified tips received in occupations that are listed by the IRS as customarily and regularly receiving tips. To qualify, the tips must be reported on a Form W-2 or Form 1099.

No tax on overtime. Individuals may deduct up to $12,500 ($25,000 for joint filers) of qualified overtime pay. The deductible portion is the amount that exceeds the regular rate of pay (such as the "half" portion of "time-and-a-half" pay). The IRS provided transitional relief for employers and other payors for 2025 who do separately state the qualified overtime compensation paid during the year. For 2025, individuals may use earnings statements, pay stubs, and other documentation provided by payers to determine qualified overtime pay.

Deduction for car loan interest. Individuals may deduct up to $10,000 of interest paid on a loan used to purchase a qualified vehicle. The deduction phases out if modified adjusted gross income is over $100,000 ($200,000). To qualify, vehicles must be purchased new for personal use and undergo final assembly in the United States. Lenders must furnish statements to taxpayers. Transitional relief applies for 2025.

Increased child tax credit. Child tax credit increased from $2,000 to $2,200 per qualifying child under age 17.

State and local taxes. The limitation on deducting state and local taxes has increased from $10,000 to $40,000.

Trump accounts. A Trump account is a type of individual retirement account (IRA) established by an authorized individual for the exclusive benefit of a child. In general, amounts cannot be withdrawn until the year the child turns 18 and contributions cannot be made before July 4, 2026. However, parents of children born in 2025 can file Form 4547, *Trump Account Election,* to make an election for a $1,000 pilot program contribution from the U.S. Treasury to the child's Trump account. Form 4547 can be filed by itself at any time or with an individual's tax return.

Expiring credits. The OBBBA accelerated the expiration of the following credits.

- The Clean Vehicle Credit and Previously-Owned Clean Vehicle Credit for new and used electric vehicles expired for purchases after September 30, 2025.
- The Alternative Fuel Vehicle Refueling Property Credit for charging stations expires for property placed in service after June 30, 2026.
- The Energy Efficient Home Improvement Credit expires for property placed in service after December 31, 2025. This credit applies to energy efficient windows, doors, insulation, central air conditioners, furnaces, etc.
- The Residential Clean Energy Credit expires for expenditures made after December 31, 2025. This credit applies to solar panels, fuel cell property, etc.

IRS hot items. Some IRS focal points in 2025 include the following.

Phaseout of paper checks. The IRS announced that paper tax refund checks for individuals will be phased out beginning on September 30, 2025, as required by Executive Order 14247, to the extent permitted by law. This marks the first step of the broader transition to electronic payments.

Foreign assets. The IRS continues to focus on the reporting of foreign assets and the penalties for not complying can be severe. There are enhanced reporting requirements if you have any type of foreign asset, whether it is a foreign bank account, pension plan, rental property, ownership of a foreign company, etc.

Digital assets. Digital assets include non-fungible tokens (NFTs), and virtual currencies, such as crypto-currencies and stablecoins. If a particular asset has the characteristics of a digital asset, it will be treated as a digital asset for federal tax purposes. Transactions involving digital assets are reportable and taxable. You are required to answer a digital asset question on the tax return.

Unreported income. If you are earning extra money by doing side jobs, such as ridesharing, selling crafts online, delivering meals, dog-walking, or renting out property via an online rental company, it needs to be reported on your tax return. Unless specifically excluded under the Internal Revenue Code, all income is taxable. This includes foreign income, barter income, and all earned income, whether reported to you on one of the various Forms 1099 or not.

Federal and state differences. When it comes to taxes, most of what you read and hear from the media has to do with federal tax law. Remember that each state has its own tax law and just because something is not allowed for federal taxes (or you do not qualify) does not mean that you are not still able to use it on your state return. Therefore, it is important to provide all of your income and expenses to your tax preparer.