

Federal Tax Law Changes and Impacts

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Keywords

- Tax Law Changes
- Deductions and Credits
- Phase-outs

Theme

This letter provides an overview of recent and upcoming changes to federal tax laws, highlighting key updates affecting individuals, families, and businesses. This summarizes major adjustments to credits, deductions, and thresholds, emphasizing both temporary and permanent provisions, and offers practical guidance on how these changes may impact taxpayers in the coming years.

Takeaways

1. The child tax credit increases to \$2,200 per child under 17 in 2025, with \$1,700 potentially refundable.
2. Dependent care credits and FSA contribution limits increase in 2026.
3. The estate and gift tax exemption rises to \$15 million in 2026.
4. The SALT deduction cap temporarily increases to \$40,000, reverting to \$10,000 in 2029.
5. New above-the-line deductions are introduced, including for seniors 65 and older, tips, overtime, and auto loan interest, all with income phase-outs.
6. Charitable contribution rules change in 2026, affecting both itemizers and non-itemizers.
7. Adoption credit becomes partially refundable; 529 plan withdrawal limits increase for K-12 expenses.
8. New savings accounts for children born after 2025, with government contributions.



9. Certain energy and electric vehicle credits are set to expire after 2025.
10. Business tax provisions change, including bonus depreciation, Section 179 limits, and reporting thresholds for 1099 forms.

Highlights

- This tax law bill is over 800 pages long, so it's going to take us a little time to work through it.
- We just want to get something in your hands so you know that we are on top of it and we are learning more about it.
- Please, if you have overtime, receive tips, or you're receiving social security, please do not change your withholdings because at this point we do not know what all the rules are.

Chapter Topics

1. Child and Dependent Credits

Description

Significant increases to the child tax credit and dependent care credits are scheduled, with changes to refundability and eligibility.

Key Points

- Child tax credit increases to \$2,200 per child under 17 in 2025.
- Up to \$1,700 of the child tax credit may be refundable.
- Dependent care credit increases in **2026** to \$1,500 for one child and \$3,000 for two or more.
- FSA contribution limit for dependent care rises to \$7,500 in **2026**.

Examples

- ****Detail:****In 2025, a family with two children under 17 can claim \$4,400 in child tax credits.
****Explanation:****Each child qualifies for \$2,200; if the family's tax liability is less than the credit, up to \$1,700 per child may be refunded.
- ****Detail:****In 2026, a parent with one child in daycare can claim up to \$1,500 in dependent care credit.
****Explanation:****The credit amount increases from \$1,050 to \$1,500 for a single child.

Considerations

- Credits may be subject to income phase-outs.
- Refundability depends on tax liability.

Special Circumstances

- If you do not have enough tax liability to use the full credit, the refundable portion may still provide a benefit.
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2. Deductions & Itemization

Description

Adjustments to the standard deduction, above-the-line deductions, and the SALT cap affect who can itemize and what can be deducted.

Key Points

- SALT deduction cap increases to \$40,000 temporarily, reverting to \$10,000 in 2029.
- Gambling Losses are only deductible starting in **2026** to 90% of winnings.
- Four new above-the-line deductions: for seniors, tips, overtime, and auto loan interest.
- Additional \$6,000 deduction per filer over 65; \$12,000 for married couples.
- Deductions for tips (up to \$25,000) and overtime (up to \$12,500 per individual).
- Auto loan interest deduction up to \$10,000 for new vehicles assembled in the US.

Explains

- The additional deduction for seniors is phased out at higher incomes.
- Tip and overtime deductions have complex rules and phase-outs.
- Auto loan interest deduction requires the vehicle to be new and assembled in the US, with a phase-out based on income.

Examples

- ****Detail:****A married couple over 65 can deduct an extra \$12,000 from taxable income.
****Explanation:****Each filer receives a \$6,000 additional deduction in addition to their standard deduction or itemizing.
- ****Detail:****An individual with \$15,000 in tips may deduct the full amount if under the phase-out threshold.
****Explanation:****The deduction is subject to income limits and specific rules.

Considerations

- Not all taxpayers will qualify due to income phase-outs.
- Deductions are not automatic; documentation and compliance with rules are required.

Special Circumstances

- If your income exceeds the phase-out threshold, you may not receive the full deduction.
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3. Charitable Contributions

Description

Rules for deducting charitable contributions change for both itemizers and non-itemizers, with new limits and requirements.

Key Points

- Non-itemizers can deduct up to \$1,000 per person (\$2,000 for joint filers) starting in **2026**.
- Itemizers can only deduct amounts exceeding 0.5% of adjusted gross income.
- C-Corp charitable gift deductions are reduced.
- New federal tax credit for K-12 scholarship donations starting in **2027**, subject to state adoption.

Examples

- ****Detail:****A married couple donates \$2,000 to charity in 2026 without itemizing.
****Explanation:****They can deduct the full \$2,000 from taxable income.
- ****Detail:****An individual with \$100,000 AGI can only deduct charitable contributions exceeding \$500 if they are itemizing.
****Explanation:****Only the portion above 0.5% of AGI is deductible.

Considerations

- State adoption is required for the K-12 scholarship credit.
- C-Corp deductions are subject to new limitations.

Special Circumstances

- If you do not itemize, you can still claim a limited charitable deduction.
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4. Education and Savings Accounts

Description

Increases to 529 plan withdrawal limits for K-12 expenses and the introduction of government-funded savings accounts for children.

Key Points

- 529 plan withdrawals for K-12 expenses increase to \$20,000 per year in 2026.
- New savings accounts for children born after 2025 and before 2029, with \$1,000 government contribution and \$5,000 annual contribution limit.
- Contributions to new accounts are not deductible; earnings are tax-deferred.

Examples

- ****Detail:****Parents withdraw \$15,000 from a 529 plan for private school tuition in 2026.
****Explanation:****The new limit allows up to \$20,000 per year for K-12 expenses.
- ****Detail:****A child born in 2025 receives \$1,000 in a government-funded account.
****Explanation:****Parents can contribute up to \$5,000 annually; taxes on earnings are deferred until withdrawal.

Considerations

- Withdrawals and contributions must comply with new limits.
- Tax treatment of earnings is deferred, not exempt.

Special Circumstances

- If a child is born outside the specified years, they are not eligible for the new account.
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5. Energy and Vehicle Credits

Description

Tax credits for electric vehicles and residential energy improvements are set to expire after 2025.

Key Points

- \$7,500 electric vehicle credit only available for purchases before September 30, 2025.
- Residential clean energy credit (30% of cost) and energy efficiency home improvement credit (air conditioners, windows, furnaces, hot water heaters, insulation) expire for property placed in service after December 31, 2025.

Examples

- ****Detail:****A taxpayer installs solar panels in 2025 and claims a 30% credit.
****Explanation:****The credit is only available for installations before December 31, 2025.

Considerations

- Timing is critical; credits are not available for purchases or installations after deadlines.

Special Circumstances

- If you plan to buy an electric vehicle or make home energy improvements, act before the expiration dates.
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6. Business Tax Changes

Description

Several business tax provisions are updated, including increased expensing limits and changes to reporting requirements.

Key Points

- Bonus depreciation is reinstated.
- Section 179 expensing limit increases to \$2.5 million in 2025 from a prior limit of \$1.25 million.
- Research and development costs can be amortized over five years.
- Interest deduction rules for large companies are revised.
- Qualified Opportunity Zone provisions are made permanent.
- The 1099-K threshold, which was temporarily lowered to \$600, has been repealed and returns to \$20,000 or 200 transactions.
- 1099-MISC and 1099-NEC thresholds increase from \$600 to \$2,000 in 2026.

Examples

- ****Detail:****A business purchases \$2 million in equipment in 2025 and fully expenses it under Section 179.
****Explanation:****The new limit allows up to \$2.5 million in expensing.
- ****Detail:****An online seller receives \$25,000 in payments via a platform in 2026.
****Explanation:****They will receive a 1099-K, as the threshold is \$20,000 or 200 transactions.

Considerations

- Businesses must adjust reporting and compliance processes to reflect new thresholds.
- Some provisions are permanent, others temporary.

Special Circumstances

- If your business issues many 1099 forms, ensure compliance with new thresholds starting in 2026.
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7. General Guidance and Warnings

Description

Due to the complexity of the new tax law and we advise caution in making changes before all rules are clarified.

Key Points

- Many provisions have complex rules and phase-outs.
- Do not change withholdings for overtime, tips, or social security, and do not assume these are not being taxed for 2025, as rules are still being clarified.
- Updates will be provided as more details emerge.

Considerations

- Stay informed through official updates and professional advice.
- Avoid making assumptions about taxability or eligibility.

Special Circumstances

- If unsure about your eligibility for new credits or deductions, consult a tax professional before making changes.

Assignments/Suggestions

- Monitor updates on the website **www.thornapplefinancialcenter.com** for the latest information.
- Do not adjust your withholdings for overtime, tips, or social security until further guidance is available.
- Review your eligibility for new credits and deductions as more details become available.

Thank you for your time in reading our first tax update letter. I intentionally dated this letter so that as you check our website for any further updates or revisions to this letter you will know that you are reading the latest version. Please be assured that we will be continuing to read and attend update schools over the next several months so that we can give you additional accurate information.

Warm Regards,

A handwritten signature in black ink, appearing to be "Sam", written in a cursive style.