

Good afternoon,

This newsletter provides a concise overview of the tax law changes impacting the 2025 tax year, following the enactment of the One Big Beautiful Bill (OB3). Please be aware that this summary is based on current information, and I am awaiting final guidance from the IRS for comprehensive details. Future newsletters will address changes relevant to the 2026 tax year.

It is important to note that this information pertains solely to federal tax law changes, and state tax law updates will be communicated separately as they become available. I strongly advise against relying on tax advice from unofficial sources such as news, social media, family, or neighbors due to the prevalence of misinformation. Please do not hesitate to contact me directly with any questions you may have.

Below are the key deductions, effective for the 2025-2028 tax years unless otherwise stated, with a focus on those frequently inquired about:

#1 The Senior Deduction:

To address the question a lot of you will ask. There has been zero change in how your Social Security is taxed!

This is an additional \$6,000 deduction for individuals over the age of 65 by the end of the year. This means that a married couple over the age of 65 could get an additional deduction of \$12,000. This deduction is an addition to the Standard or Itemized deduction.

There are limitations to these deductions. The income phaseout starts at MAGI (modified adjusted gross income) \$75,000 (\$150,000 Married filing joint), once your income has reached these levels there is a 6% reduction on the excess amount (per taxpayer)

Requirements: Must have a valid social security number and married couples must file jointly to qualify for this credit.

The Senior Deduction fully phased out at MAGI of \$175,000 Single/\$250,000 MFJ. The deduction cannot be reduced to below zero.

Example: Married Taxpayers, both over 65, filing jointly and MAGI of \$165,000. MAGI is \$15,000 over the phaseout amount. The allowed senior deduction would only be \$8,400, (which is \$6,000 less \$1,800 (6% of \$15,000) = \$4,200) for each taxpayer).

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#2 Tip Deduction:

Please note that this is NOT a no tax on Tips. Tips are still reported to your employer or reported on Form 4137. This is very important because only qualified reported tips for employees qualify for this deduction. Qualified tips are defined as any cash tips received by an individual in an occupation that customarily and regularly receives tips on or before December 31, 2024. Cash tips will also include tips left on a credit card.

The Tip Deductions will allow for up to \$25,000 max per year regardless of your filing status (per tax return, not each taxpayer).

Must have a valid social security number

Married couples must file jointly to qualify for this credit.

There are special provisions for self-employed people who receive 1099's (Instacart, door dash, Uber and Lyft workers) and Beauty service. If you want more information on these topics, please contact me.

There are limitations to these deductions. The income phaseout starts at MAGI \$150,000 (\$300,000 Married filing joint), once your income has reached these levels there is a \$100 reduction for each \$1,000 over the MAGI limits.

The Tip Deduction fully phased out at MAGI of \$400,000 Single/ \$550,000 Joint. The deduction cannot be reduced to below zero.

Example: Married couple, MAGI of \$325,000, one spouse works as a server in a restaurant and earns \$26,000 in tips. They reported all \$26,000 in tips on Form W2, but only \$25,000 will be allowed before the income limitations. The MAGI is \$25,000 over the phaseout amount which will reduce the tip deduction to \$22,500 ($2500 = (25,000/1000) * 100$).

#3 Overtime Deduction:

Please note that this is NOT a no tax on Overtime. All overtime is still reported the same and subject to taxes.

Individuals with Qualified Overtime will be able to deduct up to \$12,500 (\$25,000 MFJ). But only the "half" time of the "time and half" will qualify for this deduction. Example: if you earn \$20 an hour, your overtime rate is \$30 per hour. Only the additional "half time" of \$10 per hour will qualify. The overtime will also have to be clearly stated on Form W2, 1099 or other reported forms (still waiting on guidance on how these will be reported).

Must have a valid social security number

Married couples must file jointly to qualify for this credit.

There are limitations to these deductions. The income phaseout starts at MAGI \$150,000 (\$300,000 Married filing joint), once your income has reached these levels there is a \$100 reduction for each \$1,000 over the MAGI limits.

The Overtime Deduction fully phased out at MAGI of \$400,000 Single/ \$550,000 Joint. The deduction cannot be reduced to below zero.

Example: Married couple, MAGI of \$350,000. One spouse W2 shows \$13,000 in overtime. Second spouses W2 shows \$6,000 of overtime. For a total of \$18,000. The MAGI is \$50,000 over the phase out amount which will reduce the overtime deduction to \$13,000 ($5,000 = (50,000/1000) * 100$).

#4 New Car Loan Interest Deduction: This is a new deduction for qualified passenger vehicle loans (no commercial vehicles or used vehicles). The deduction is for up to \$10,000 per year.

All vehicles must have final assembly occur within the United States.

Requirements:

- Originally purchased by the taxpayer
- Purchased after December 31, 2024
- VIN number and purchase document must be provided
- Primarily used for public streets, roads & highways
- At least two wheels
- Car, minivan, van, SUV, truck or motorcycle
- Gross vehicles weigh less than 14,000 pounds

There are limitations to these deductions. The income phaseout starts at MAGI \$100,000 (\$200,000 Married filing joint), once your income has reached these levels there is a \$200 reduction for each \$1,000 over the MAGI limits.

Example: Married couple, MAGI of \$240,000. Car loan interest of \$4,000 paid in 2025. The MAGI is \$40,000 over the phase out amount which will reduce the car loan interest deduction to \$0 ($8,000 = (40,000/1000 * 200)$).

#5 State and Local Tax (SALT) Deduction:

Has been increased from 10,000 to \$40,000 (MFS \$20,000) for the year 2025.

The phaseout amounts start at \$500,000 (MFS \$250,000) and the reduction is 30% above the phaseout amounts.

Example: Married taxpayer files jointly with MAGI of \$535,000. SALT listed on Schedule A shows \$30,000. Because their MAGI is \$35,000 over the phaseout means their SALT limit is reduced by \$10,500 ($\$35,000 \times 30\%$), making the total SALT deduction \$29,500 ($\$40,000 - \$10,500$).

#6 529 Plan Changes:

There are changes to 529 plan tax free distribution, but the 2025 changes only affect distribution after **July 4, 2025**. If you have questions, please contact me.

#7 Green Tax Credit Terminates:

The important one for 2025 is that this bill terminates the clean vehicle (both new and used) credit for any vehicles purchased after **September 30, 2025**.

As of **December 31, 2025**, this bill terminates all energy efficient home improvements credit (windows, doors, insulation, heat pumps, etc.) and residential clean energy credits (solar)

#8 Adoption Credit

Allows up to \$5,000 credit and is refundable

#9 Increase Child Tax Credit- Permanently

The Child Tax Credit for children under the age of 16 has increased to \$2,200 from \$2,000, all other dependents will remain at \$500

Must have a valid social security number for each child and at least one parent.

There are limitations to these deductions. The income phaseout starts at MAGI \$200,000 (\$400,000 Married filing joint),

#10 2025 Tax Rates

There have been no tax rate changes (increase or decrease) for the 2025 year.

#11 Standard Deductions

Single/MFS \$15,750 (up from \$15,000)

MFJ \$31,500 (up from \$30,000)

HOH \$23,625 (up from \$22,500)

#12 Itemized Deductions

- No changes to medical deductions
- No changes to home mortgage interest
- No changes to charitable donations
- No changes to miscellaneous deductions

· Only change for 2025 is the SALT deduction (please see #5)

Quick rundown on Business changes:

A) Bonus Depreciation: 100% bonus has been made permanent, but applies only to purchases **after 1/19/2025**

B) Research and Development (R&D) expenses: This provision reverses the 5-year amortization requirement. Please call if you have questions about this.

C) 179 Deductions: Has been made permanent

D) Green Tax Credit Termination: Same as for individuals, all clean vehicle credits will terminate as of September 30, 2025

As a reminder, this is just a very quick (5 page) overview of the changes that will affect the year 2025.

There are more changes coming for the year 2026, I will address those in a later newsletter.

Please reach out with any questions you have.

Kelly Mueller