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As we approach the 2025 tax filing season, several significant tax law changes, particularly those enacted under the One Big Beautiful Bill Act ("OBBBA"), will impact both individual and business taxpayers. To help you prepare, we have summarized the key updates, inflation adjustments, and planning considerations that may affect your 2025 tax return and your broader financial picture. We encourage you to review the following information carefully and reach out with any questions as you organize your tax documents for the upcoming season.

Individual Taxes:

Tax Rate Brackets

A 37% tax bracket applies to taxable income that exceeds $626,350 for single and head of household ("HOH") taxpayers, $751,600 for married individuals filing jointly ("MFJ") and surviving spouse, and $375,800 for married individuals filing separate ("MFS"). All other tax brackets have been adjusted for inflation.

Individuals with wages and other compensation in excess of $250,000 for MFJ, $125,000 for MFS, and $200,000 for all others are subject to the additional Medicare tax of 0.9%. Employers are obligated to withhold the additional tax beginning with the pay period when wages exceed $200,000 for the calendar year. If taxpayers ultimately do not owe the additional withholding for Medicare, they can claim a credit on their 2025 income tax return.

Preferential Rates for Capital Gains and Qualified Dividends

Qualified dividends and long-term capital gains rates range from 0% to 20%. The capital gains rate depends on taxable income, how much of the taxable income consists of qualified dividends and eligible long-term capital gains and filing status. The 20% capital gains rate applies to single taxpayers with taxable income over $533,400, MFJ taxpayers with taxable income over $600,050, MFS taxpayers with taxable income over $300,000, and for HOH taxpayers with income over $566,700.

Net Investment Income Tax

The net investment income tax ("NIIT") is still applicable for 2025. This tax impacts taxpayers who have net investment income and modified adjusted gross income ("MAGI") over the following thresholds: $250,000 for MFJ or surviving spouse, $125,000 for MFS, $200,000 for single, and $200,000 for HOH.

If modified adjusted gross income ("MAGI") exceeds the threshold, a 3.8% tax applies to the lesser of the net investment income or the excess of MAGI over the threshold.

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Required Minimum Distributions

The required minimum distribution ("RMD") is the minimum amount you must withdraw from your IRA, SEP IRA, SIMPLE IRA, or employee sponsored retirement plans when you reach age 73. RMDs are not required from designated Roth accounts. Roth IRAs do not require withdrawals until after the death of the owner, however beneficiaries of a Roth IRA are subject to the RMD rules.

Personal Exemptions and Itemized Deductions

The elimination of the personal exemption was a provision in the Tax Cuts and Jobs Act of 2017 and was made permanent by the OBBBA.

We have outlined the itemized deductions available for 2025 as follows:

- OBBBA raises the cap on the federal deduction for state and local income taxes, personal property taxes and real estate taxes from $10,000 to $40,000 per household ($20,000 for married filing separately), effective for tax year 2025. The deduction phases out for filers with MAGI above $500,000 ($250,000 for married filing separately) and reverts back to the original $10,000 cap.
- The OBBBA added the following deductions in effect beginning with tax year 2025:
    - Auto loan interest - taxpayers may deduct up to $10,000 in interest on new car loans for U.S. assembled vehicles. The deduction phases out above $100,000 (Single) and $200,000 (MFJ) and is available through 2028.
    - Qualified tips - eligible W-2 employees working in tip-based occupations may deduct up to $25,000 per year in reported tip income from their federal taxable income. This deduction phases out for taxpayers with AGI above $150,000 (Single) or $300,000 (MFJ) annually.
    - Overtime pay - the first $12,500 of overtime pay earned by eligible W-2 employees each year will be excluded from federal taxable income. To qualify, the compensation must be for hours worked beyond 40 hours in a week and paid at the legally required overtime rate. This exclusion phases out for taxpayers with AGI above $150,000 (Single) or $300,000 (MFJ).
- Mortgage interest on principal up to $750,000 ($375,000 if married filing separately) is allowed on new mortgages entered into on or after December 15, 2017 ($1,000,000 for loans entered before December 15, 2017). Interest on the portion of the mortgage not used to buy, build, or remodel your personal residence is not allowed.
- Charitable donations of cash in 2025 are limited to 60% of AGI.
- The suspension of miscellaneous itemized deductions subject to the 2% AGI floor has been made permanent. This means unreimbursed employee expenses, investment fees, tax preparation costs, and similar expenses remain nondeductible on your federal tax return.
- Casualty losses will now only be allowed for presidentially declared disaster areas.
- Under the One Big Beautiful Bill Act (OBBBA), beginning in 2026, taxpayers may no longer deduct 100% of their gambling losses. Instead, only 90% of losses may be deducted, and then only up to the amount of gambling winnings. The deduction remains available only if you itemize, and losses from wagering, including entry fees for fantasy sports that the IRS treats as wagers, remain subject to this 90% cap.
- The overall itemized deduction limitation ("Pease limitation") does not apply for tax year 2025. A new overall limitation on itemized deductions for taxpayers in the highest tax bracket is scheduled to take effect for tax years beginning after December 31, 2025 (i.e., tax year 2026 and thereafter).

Patient Protection and Affordable Care Act

The federal individual mandate penalty continues to be $0 for 2025 (originally reduced to $0 by the Tax Cuts & Jobs Act beginning in 2019). There are still some states (such as CA, DC, MA, NJ, RI and VT) that still have health insurance mandates and may apply penalties for not having coverage. Individuals and families are still able to acquire coverage through the Patient Protection and Affordable Care Act market place. Individuals with marketplace coverage may be entitled to the §36B premium assistance tax credit when filing their 2025 tax return. If a taxpayer received an advanced payment of the credit, they are required to file a 2025 IRS Form 1040.

For 2025 the §36B premium assistance tax credit is available for taxpayers who meet certain household income criteria.

Taxpayers should receive one of the following forms which pertain to healthcare coverage and these forms should be utilized when filing your 2025 returns:

- Form 1095-A Health Insurance Marketplace Statement
- Form 1095-B Health Coverage (sent out on or before March 1, 2026)
- Form 1095-C Employer-Provided Health Insurance Offer and Coverage

Standard Deductions

The standard deduction for 2025 increases to $31,500 for MFJ and surviving spouse, $23,625 for HOH, or $15,750 for all other taxpayers. The additional standard deduction for being 65 or older or blind is $2,000 if single or HOH ($4,000 if 65 or older and blind). If MFJ, the additional standard deduction is $1,600 if one spouse is 65 or older or blind, $3,200 if both spouses are at least 65 (or one is 65 and blind).

Senior "Bonus" Deduction

Taxpayers age 65 and older may claim a new $6,000 "bonus" deduction ($12,000 for MFJ where both spouses qualify), which is effective for tax years 2025 through 2028, and is in addition to the additional standard deduction noted above. This deduction phases out beginning at $75,000 (Single) or $150,000 (MFJ).

Deduction Floor for Medical Expenses

Remaining for 2025, the floor for deducting medical expenses as an itemized deduction is 7.5% of AGI for all taxpayers.

Social Security Wage Base

For 2025, the tax rate on the employee portion of social security is 6.2% on wages up to $176,100; therefore, social security tax withholdings will not exceed $10,918. Medicare tax of 1.45% is withheld from all wages regardless of amount of wages.

Self-employment taxes of 15.3% apply to earnings up to $176,100, after which are decreased by 7.65%. The 15.3% rate equals 12.4% for social security plus 2.9% for Medicare. If net earnings are in excess of $176,100, the 2.9% Medicare rate applies to the total amount. One half of the self-employment tax may be taken as an above the line deduction. The maximum self-employment social security tax is reached at $21,836.

It should be noted, that if earnings exceed the applicable threshold, net self-employment earnings could be subject to the 0.9% additional Medicare tax.

IRA and Roth IRA Contribution Phase-out

For 2025, the contribution limit for traditional IRAs and Roth IRAs remains at $7,000, or $8,000 for those age 50 or older. This will increase to $7,500 in 2026 ($8,600 for those age 50 or older). The contribution deduction for traditional IRAs is phased-out for active plan participants with MAGI between $79,000 and $89,000 for single or HOH, or between $126,000 and $146,000 for MFJ. The phase-out range is $236,000 - $246,000 for a spouse who is not an active plan participant and who files jointly with a spouse who is an active plan participant.

The income phase-out range for taxpayers making contributions to a Roth IRA is $150,000 - $165,000 for single and head of household filers, and $236,000 - $246,000 for married filing jointly.

Contributions must be made with earned income, and there is no age limit on making regular contributions to traditional IRAs or Roth IRAs.

IRA Qualified Charitable Distributions (QCDs)

IRA qualified charitable distributions (QCDs) gives each individual taxpayer the ability to distribute up to $108,000 to a charity directly from an IRA for an individual over the age of 70½ without including the distribution in income or deducting the amount as a charitable contribution. This distribution is taken into account when determining the taxpayers required minimum distribution and is a permanent rule by the IRS.

529 Plans

In 2025, 529 plan savings may continue to be used for elementary or secondary public, private or religious school tuition and related qualified expenses. Account earnings grow tax-deferred, and distributions used for qualified higher-education expenses at eligible post-secondary institutions remain free from federal income tax.

Under OBBBA, additional flexibility is introduced:

- For K-12 education, the annual distribution limit of $10,000 per beneficiary remains in effect for 2025, with a scheduled increase to $20,000 beginning in tax year 2026.
- Qualified expenses for K-12 are broadened (for distributions made after July 4, 2025) to include curriculum materials, online learning tools, tutoring, standardized test fees, and dual-enrollment tuition.
- The ability to use 529 funds for credentialing, licensing and certain continuing-education programs is expanded under OBBBA (for distributions after July 4, 2025).

For New York State taxpayers: you can deduct up to $10,000 of contributions for married filing jointly and $5,000 for single filers made to qualifying 529 plans on your New York State return (subject to state law).

Additionally, under the SECURE 2.0 Act, unused 529 plan monies may in certain cases be rolled over to a Roth IRA for the beneficiary (subject to specific rules: account must be open 15+ years, lifetime cap applies, etc.).

Depreciation

The maximum §179 deduction allowed is $2,500,000 for qualifying property placed in service in 2025, subject to a limitation based upon the qualified assets placed into service. For 2025, this threshold amount is $4,000,000. The §179 deduction also imposes an income limitation upon the deduction.

Under OBBBA, bonus depreciation is 100% for most qualified property acquired and placed in service after January 19, 2025. Property acquired on or before January 19, 2025, is subject to the prior phase-down rules. Bonus depreciation continues to include used property with a recovery period of 20 years or less, and applies automatically unless the taxpayer elects out.

Alternative Minimum Tax

The 2025 alternative minimum tax ("AMT") exemptions are increased to $137,000 for MFJ and surviving spouse, $88,100 for single and HOH, $30,700 for estates and trusts, and $68,500 for MFS. The 2025 AMT exemptions phase-out begins at $1,252,700 for MFJ and surviving spouse, $626,350 for single filers, $626,350 for MFS, and $102,500 for estates and trusts. The AMT exemption amount is reduced one dollar for every four dollars of AMT income above the threshold amount for the taxpayer's filing status.

Eligibility for Saver's Credit

The saver's credit is 50%, 20%, or 10% of your retirement plan or IRA or ABLE account contributions depending on your adjusted gross income. The maximum amount of the credit is $1,000 for single taxpayers and $2,000 for married filing joint taxpayers. Credits are phased out when AGI reaches $39,500 for single taxpayers, $59,250 for HOH, and $79,000 for MFJ and surviving spouse.

Adoption Credit

For adoptions finalized in 2025, the federal adoption credit has been enhanced under the OBBBA. The maximum credit amount for 2025 is $17,280 per eligible child. Key changes include:

- Up to $5,000 of the credit is now refundable, meaning that even if you owe no federal income tax, you may still receive a refund for up to $5,000 of qualified adoption expenses. The remainder of the credit remains non-refundable but may be carried forward up to five years.
- The phase-out threshold starts at a modified adjusted gross income (MAGI) of $259,190 for 2025.
- The definition of "special needs" for an adopted child has been expanded to include determinations by Indian tribal governments in addition to states.

Deduction Limits for Long-Term Care Premiums

The maximum amount of age-based long-term care premiums that can be included as deductible medical expenses for 2025 (subject to the 7.5% of AGI floor) is $480 if you are age 40 or younger at the end of 2025; $900 for those age 41 through 50; $1,800 for those age 51 through 60; $4,810 for those age 61 through 70; and $6,020 for those over age 70.

Foreign Earned Income and Housing Exclusions

The foreign earned income exclusion for 2025 is $130,000 per qualifying person. In addition, the housing expense limitation to use in calculating your maximum housing exclusion is generally $39,000 (30% of $130,000). However, the housing expense exclusion is based on locality, so in some cases there will be adjustments to the $39,000 used to calculate the final housing exclusion.

Report of Foreign Bank and Financial Accounts ("FBAR")

The Surface Transportation and Veterans Health Care Choice Improvement Act of 2015 provides, for tax years beginning after December 31, 2015, the TD-F-90-22.1 (Fin Cen Report 114) "*Report of Foreign Bank and Financial Accounts (FBAR)*". This report is usually electronically filed to the Treasury Department on or before April 15th with an automatic extension of six months. All US persons who have a financial interest in or signature authority over at least one foreign account and the aggregate value of all accounts exceeds $10,000 at any time during the year must file a FBAR. This report is filed separate from your income tax return. The willful failure to file a FBAR can carry both civil and criminal penalties, including a penalty equal to the greater of $165,353 or 50% of the highest balance in the account, for each violation.

Annual Exclusion for Gifts

The exclusion for gift taxes is $19,000 for each taxpayer per beneficiary for 2025 and will remain at $19,000 for 2026.

Child Tax Credit

The child tax credit is worth up to $2,200 per child under the age of 17 and can only be claimed when filing your tax return. The income level the credit begins to phase-out for MFJ is $400,000 and $200,000 for all others. Of this amount up to $1,700 is refundable.

Dependent Credit

Continuing for 2025, taxpayers are eligible for a non-refundable $500 credit for each dependent who is not a qualifying child under the age of 17. The credit begins to phase out when your income is more than $200,000 for a single taxpayer and $400,000 for a married taxpayer.

Gift Tax and Estate Tax Exemption

For 2025 gift tax and estate tax purposes, the basic exemption amount is $13,990,000 for federal taxes which will increase to $15,000,000 for 2026. The top rate remains at 40% for 2025.

Education Credits

The maximum credit allowed under the American Opportunity Credit is $2,500 per student for all taxpayers except MFS, who do not qualify for the credit. For 2025, the credit starts to phase out at $160,000 for MFJ filers (completely phased out at $180,000) and $80,000 for all other qualifying taxpayers (completely phased out at $90,000).

The maximum credit allowed under the Lifetime Learning Credit is $2,000 per tax return for all taxpayers except MFS, who do not qualify for the credit. This credit is non-refundable, meaning it can reduce tax liability to zero but cannot generate a refund. For 2025, the income phaseouts for this credit are the same as the American Opportunity Credit phaseouts.

Clean Energy Credits

The Inflation Reduction Act (IRA) increased several federal residential energy credits, including raising the credit rate for many clean energy improvements to 30% beginning in 2022. However, under the One Big Beautiful Bill Act (OBBBA) and related IRS guidance, the Residential Clean Energy Credit (§25D) and the Energy Efficient Home Improvement Credit (§25C) will no longer be allowed for any qualified expenditures made after December 31, 2025. Taxpayers planning energy-related home improvements should be mindful of these accelerated termination dates.

If you purchase or lease solar energy system equipment you are also eligible for a New York State credit equal to 25% of your qualified solar energy system equipment expenditures with a maximum amount of $5,000. This credit is not refundable. However, any credit amount in excess of the tax due can be carried forward for up to five years.

Plug-In Electric Drive Vehicle Credit

If you purchased and took delivery of a qualified plug-in electric drive vehicle (www.fueleconomy.gov) prior to September 30, 2025, you may be eligible for a federal tax credit of up to $7,500. The income limitations for the credit are:

- $150,000 Single
- $225,000 Head of Household
- $300,000 Married Filing Joint

OBBBA Update: For vehicles acquired after September 30, 2025, the federal credit is no longer available. Taxpayers who entered into a binding contract and made a payment on or before that date may still qualify for the credit. Timing of your purchase is therefore critical if you wish to claim the credit.

Corporate Taxes:

Corporate tax changes that took effect for years beginning on or after January 1, 2019, continue through December 31, 2025. The following is a summary of some of the key changes that will continue:

- C-Corporations will continue to have a flat tax rate of 21% on all taxable income.
- The use of business losses of noncorporate taxpayers is restricted to $313,000 for unmarried taxpayers and $626,000 for married taxpayers.
- The deduction for employer provided business meals during 2025 remains at 50%. Under OBBBA, beginning January 1, 2026, employer-provided meals furnished for the convenience of the employer (including meals at employer-operated eating facilities) will generally be nondeductible.
- For 2025 there is generally no deduction allowed for amounts paid for entertainment expenses.
- Due to SECURE 2.0 Act, employers with 100 or fewer employees are eligible for the following credits relating to retirement plans:
  - Startup Tax Credit – for eligible employers who establish a new qualified retirement plan, SEP, or SIMPLE IRA plan. The credit is up to 100% of the administrative and retirement-education expenses for the plan, up to $5,000 per year for the initial three years of the plan.
  - Employer Contribution Tax Credit – for eligible employers making contributions to employee retirement plans. Eligible employers could receive a credit of up to $1,000 per employee (phasing out for those earning more than $100,000 annually) for the first two years of the plan. In years 3 – 5 of the plan, the credit phases down as follows:
    - Year 3, 75% of the contribution up to $1,000 cap
    - Year 4, 50% of the contribution up to $1,000 cap
    - Year 5, 25% of the contribution up to $1,000 cap

        - Roth matching contributions – employers can continue to offer Roth (after-tax) matching contributions. These contributions are taxable to employees in the year they are made.
- Qualified Business Income Deduction (199A Deduction):
    - A special 20% deduction will apply for certain business income reported on a person's individual return. This includes income from qualified businesses.
    - This deduction is available to sole proprietors (Schedule C), real estate rental income (Schedule E), Trust and Estates, Partnerships and S-Corporations.
    - The deduction is subject to some limitation rules and in general will not be allowed for most professions or consulting businesses, unless the taxpayer's total income is under $197,300 for single and $394,600 for MFJ taxpayers. The QBI deduction was scheduled to disappear after 2025 but was made permanent by the OBBBA.

We have provided a complete tax service to our clients for over eighty years. We also provide you with highly professional services at a fair and reasonable cost commensurate with the service rendered and complexity of the tax return. We are available throughout the year for any questions you may have concerning taxes or other financial matters.

Please send in all tax information by April 3, 2026 so we may complete your tax return timely. After that date, it may be necessary to file an extension. Please call our office if an extension is necessary.

We would also like to remind business owners that tax filings for Partnerships and S-corporations are due March 16, 2026. Personal tax and C-corporation tax filings are due April 15, 2026. Please forward all necessary information as soon as possible to assist us with filing your tax return on a timely basis.

We will commence accepting tax information starting February 1, 2026 through April 3, 2026. The fee for our tax preparation services will be outlined in your engagement letter. Please note that there will be one fee for payments made by cash, check, or debit card, and a different fee for payments made by credit card. The specific amounts for each payment method will be clearly stated in the engagement letter.

We are happy to share that we are continuing our refer a friend incentive of a $25 visa gift card for each new referred tax client tax return we prepare.

If you have any questions, feel free to contact us. You may visit our website at www.rsabrams.com for updated information on tax matters and other relevant changes. We would like to take this opportunity to thank you for your confidence in us. Wishing you a happy and healthy holiday season.

Very truly yours,

R.S. Abrams + Co., LLP

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