The Kiplinger Tax Letter

100 years

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Dear Client: Washington, Oct. 9, 2025

HIGHLIGHTS

Supreme Court Home foreclosure

Tips Write-off Self-employeds

Business Taxes R&D tax break

Digital Assets New Form 1099-DA

Enforcement IRS appeals office

IRS Government shutdown

Many individuals donate to charity each year. Knowing that the money can help an organization that is near and dear to your heart helps you feel warm and fuzzy inside. Getting a tax break is an added bonus.

For traditional IRA owners 70½ or older…

A tax-smart way to give to charity is a QCD… qualified charitable distribution. You can transfer up to $108,000 directly from your IRA to charity in 2025. For individuals with more than one IRA, the $108,000 cap is per account owner, not per IRA. Spouses who each have an IRA can do their own QCD. You can each give up to $108,000, provided each of you has enough in your account. You must be at least 70½ on the date of the QCD. For example, if you turn 70½ on Nov. 15, you must wait until that day or later to make the QCD transfer. Another key rule is that QCDs can be done only from IRAs, either one that you own or an inherited IRA. You can't do them from a 401(k) or other workplace retirement plan.

There are three main benefits of QCDs. First, they are not taxable to you. But you can't deduct the QCD as a charitable contribution on Schedule A of the 1040.

Second, they are not added to your adjusted gross income, which can help you mitigate surcharges on your 2027 monthly Medicare premiums. The QCD strategy is a good way to get tax savings from charitable gifts for taxpayers who don't itemize because of higher standard deductions. Also, regardless of whether you itemize on Schedule A, QCDs are a good tax strategy because they don't increase your AGI. This tax upside has more value now, since many of the new federal income tax breaks in the "One Big Beautiful Bill" begin to phase out at modified adjusted gross incomes above a certain level. They include the $6,000 deduction for people 65 and older, plus deductions for up to $25,000 of qualified tips, up to $12,500 of overtime pay, up to $10,000 of vehicle loan interest and up to $40,000 of state and local taxes.

Third, QCDs can count toward your annual required minimum distribution, but be sure to do the QCD before withdrawing your full RMD for the year 2025.

Even if you are not of RMD age, it still might make sense to do QCDs, provided you are at least 70½. Doing a QCD this year would reduce your IRA balance for figuring annual RMDs for the years when you will eventually have to take them.

A special rule applies for people who make deductible IRA payins after 70½. Essentially, these post-70½ contributions reduce your allowable tax-free QCD amount until they are used up. Post-70½ deductible contributions to a SEP or SIMPLE IRA aren't affected. Here's a simple example. For 2022-24, a 75-year-old working man made $23,000 in total deductible contributions to his IRA. In 2025, he does a QCD for the first time, transferring $20,000 from his IRA directly to charity. He owes tax on the full $20,000 since it is less than the $23,000 of post-70½ deductible payins. In 2025, he transfers another $15,000 to charity directly from his IRA. $12,000 will be a nontaxable QCD, and $3,000 will be treated as a normal distribution.

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TAX REFUNDS

The Service is phasing out the payment of tax refunds by paper check. Even though IRS originally said it would implement this rule for individuals beginning after Sept. 30, 2025, the IRS's National Taxpayer Advocate says refunds relating to pre-2025 tax returns won't be affected. Nonetheless, IRS is encouraging filers with 2024 returns on extension to include direct deposit information. With respect to 2025 returns, taxpayers who don't provide bank account details or request an exemption will face delayed refunds. The agency will send a letter to these filers, requesting the bank account information and providing directions on how to request an exemption from the rules. Taxpayers who receive the letter and don't comply will see their refunds delayed for six weeks or more. Note the Social Security Admin. is offering the option of a prepaid debit card to Social Security beneficiaries who do not otherwise have a bank account.

SUPREME COURT

If failure to pay real property tax leads to your home being foreclosed upon... How much must the county pay you? The Supreme Court will decide. A homeowner's failure to pay real estate property tax led to a Michigan county foreclosing on the home and selling it at public auction. The homeowner owed $2,242 in unpaid property tax, the fair market value of the home on the foreclosure date was about $194,000, and the property was sold at public auction for $76,009. Earlier this year, an appeals court agreed with the county that the homeowner was entitled to $73,767 of surplus proceeds from the sale, plus accrued interest. The homeowner claims that the amount owed to a property owner in this situation should be determined based on the fair market value of the foreclosed property, and not what the county received from the auction. The high court took the case to decide whether the homeowner's constitutional rights are violated under the Fifth and Eighth Amendments by the county's foreclosure actions.

TIPS WRITE-OFF

Eligible self-employed individuals can deduct up to $25,000 of their tips. In our Sept. 25 Letter, we discussed the new deduction for qualified tips. We received questions as to whether self-employed individuals who file Schedule C with their 2025 Form 1040 next year are eligible for this new OBBB tax write-off. The answer is yes. But they must include tips received in their gross income.

The write-off can't exceed net income from the business. More specifically, IRS's proposed regs say that for nonemployees, qualified tips are deductible only to the extent gross income from the sole proprietor's business, including tips, exceeds deductions from that business, other than the deduction for qualified tips.

IRS's proposed guidance gives two examples to illustrate this limitation. In the first example, a self-employed manicurist who owns a nail salon has $100,000 of gross income from her business...$70,000 of fees and $30,000 of qualified tips. Her total Schedule C deductions are $40,000. Provided she meets all the other rules for the qualified tips break, she can deduct $25,000 of tips on new IRS Schedule 1-A. In example two, the manicurist has $75,000 of gross income from her business... $55,000 of fees and $20,000 of qualified tips...and $60,000 of Schedule C deductions. Provided the manicurist meets all the other rules for the qualified tips tax break, she can deduct only $15,000 ($75,000-$60,000) of her tips on IRS Schedule 1-A.

One additional piece of information on the qualified tips deduction: Employer reporting of tips on the Form W-2 is voluntary for 2025. Ditto for qualified overtime pay. IRS says it will issue transitional relief for employers who make good-faith efforts to comply with the reporting rules. IRS says it will issue guidance on how employees can claim the two deductions on their 2025 Form 1040 if the W-2s they receive don't report the amounts. Reporting will be mandatory, starting with 2026 W-2s sent to workers in early 2027. New codes will be added to the W-2 to account for the tips and overtime pay.

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BUSINESS TAXES Here are IRS's simplified per diems for lodging, meals and incidentals for 2026: Employees can get up to $319 tax-free daily in high-cost locales and $225 in other areas. Firms using this method can apply the new rates as of Oct. 1, 2025, or wait until Jan. 1, 2026. For meals and incidentals only, the rates are $86 per day in high-cost localities and $74 elsewhere. Self-employeds on travel can use the meals and incidentals daily rates but must separately substantiate lodging (Notice 2025-54).

Large C corps get two easings from IRS. The first is on the 15% minimum tax on adjusted book income of very big corporations that first took effect in 2023. It hits firms averaging over $1 billion per year of adjusted financial statement income over a three-year period. In Sept. 2024, IRS issued proposed regs to implement this tax. That proposal got lots of flak, and IRS says final regs will be substantially revamped.

The second involves tax-free corporate separations, such as spin-offs. IRS rescinded two sets of proposed guidance that the agency issued in Jan. 2025, during the waning days of then-President Joe Biden's administration, after tax pros and corporations grumbled that those proposals were too burdensome. Additionally, IRS is making it easier for companies engaged in spin-offs to seek private letter rulings.

Filers claiming the R&D credit will have an easier time filling out Form 6765. Last year, IRS revised the form to require firms to identify all business components and provide lots of details. IRS gave firms the option to complete the new Schedule G on the 6765 for 2024 returns. It now says filers can ignore Section G for 2025 returns.

Note these One Big Beautiful Bill favorable changes to the R&D tax break:

Full expensing of domestic R&D costs is restored, starting with 2025 returns. Before 2022, businesses could expense their R&D costs in the year incurred. For 2022 through 2024, firms had to amortize their R&D costs over five years. The OBBB revived the pre-2022 rules for domestic R&D and made them permanent.

Small firms can retroactively apply full expensing to as far back as 2022. Businesses with average annual gross receipts of $31 million or less for three years can make this small-business retroactive election. Rev. Proc. 2025-28 has the details.

A corporation snatches a tax victory from IRS in a transfer pricing dispute. It involves royalties paid by a Brazilian subsidiary to its parent, 3M Co., a U.S. company, to use 3M's intellectual property. Because Brazilian law caps the amount of royalties that a Brazilian firm can pay to a non-Brazilian firm, the subsidiary paid $5.1 million in royalties to 3M, which 3M reported as income. IRS reallocated $23.7 million more in royalties to 3M to reflect IRS's view on what 3M should have received in royalties from its subsidiary. In 2023, a divided Tax Court sided with IRS, but an appeals court has now reversed that decision. IRS argued that language in underlying regulations supported its argument, but the appeals court disagreed (3M Company, 8th Cir.).

FARM TAXES Many livestock operators in 49 states and D.C. get more time to defer gain on sales because of severe drought. Farmers in counties on IRS's list of locales that are still suffering from drought can defer gain until at least the end of 2026 by buying replacement livestock, even if the normal four-year period for gain deferral on drought-related sales has lapsed. The time period will run until the end of the filer's first tax year after the county drops off IRS's list (Notice 2025-52).

DIGITAL ASSETS If you sold or will sell digital currency through a brokerage account this year… Look for the brokerage firm to send you Form 1099-DA by Feb. 17, 2026. Legislation requires brokers to report sales price, tax basis and other information on digital asset trades. Reporting of sales proceeds starts with 2025 Forms 1099-DA, to be sent out in 2026. Reporting of tax basis and character of gain kicks in next year. This doesn't apply to decentralized crypto exchanges, also known as DeFi exchanges.

ENFORCEMENT IRS wants more taxpayers to use alternative dispute resolution programs to help resolve their tax differences before fighting them out in court. IRS's Independent Office of Appeals has four ADR programs: Fast-Track Settlement, Fast-Track Mediation Collection, the Rapid Appeals Process and Early Referral. And Appeals is now testing its fifth ADR program, titled Post Appeals Mediation. The PAM pilot program is for taxpayers who've gone through the appeals process, but still have unsettled tax differences with IRS. These taxpayers can request PAM and if accepted, the parties would make a last-ditch effort to settle the dispute. An Appeals mediator with no connection to the case would facilitate, and taxpayers can bring in a second mediator at their own expense. The goal of this one-day meeting is to identify common ground and negotiate a solution that both parties can accept.

IRS Congress passed the One Big Beautiful Bill. IRS has to implement it. This herculean task includes revising forms, instructions and publications and reprogramming computer systems to account for all the changes in the OBBB. Lots of the changes have complex rules, which will require IRS guidance to interpret.

IRS's annual priority guidance plan has 40 projects related to the OBBB. Among them: The complex web of tax provisions affecting multinationals. The new deductions for up to $12,500 of overtime pay ($25,000 on joint returns) and up to $10,000 of interest paid on loans to buy a new vehicle. Trump accounts. The new, temporary 100% depreciation allowance for qualified production property. The tax credit for individuals who donate to qualifying scholarship organizations. Enhancements to 529 savings plans. Changes to 1099 reporting. And much more.

Will IRS workforce reductions negatively impact the 2026 filing season? Treasury inspectors are concerned. As of May 2025, IRS lost between 17% and 19% of its staff in key filing-season programs responsible for manning the phone, resolving tax return errors, processing tax returns, stopping tax-related fraud and providing in-person tax assistance. These job loss figures have risen even higher since midyear. Increasing inventories not worked during 2025 will carry over into the 2026 filing season and could delay IRS processing of 2025 tax returns, Treasury inspectors warn. They also expect an increase in fraudulent refunds because there are fewer workers to catch and prevent the fraud before a refund is paid. The loss of IT workers threatens IRS's ability to seamlessly implement tax changes in the OBBB. And taxpayer correspondence will continue to go unanswered.

How will the government shutdown affect IRS, taxpayers and tax pros? It depends in part on how long the closure lasts. IRS remained fully open during the first five days of the shutdown. Now, about half of its staff are furloughed. This includes employees who work in enforcement and most collection activities, respond to taxpayer communications or answer phones. Employees who are engaged in return processing or are key to executing the OBBB's tax changes are still working. Tax pro groups are warning about what happened during the 2018/2019 shutdown, in which IRS was shuttered for over 30 days, resulting in long phone wait times and a mail backlog. And they're worried about a delayed start to the 2026 filing season.

Yours very truly,

Joy Taylor

Oct. 9, 2025 Joy Taylor, Editor

P.S. E-mail *askkiplinger@futurenet.com* if you have a tax question. I will reply and, with your approval, may choose your query for our online "Ask the Editor" feature. Go to *www.kiplinger.com/tag/ask-the-editor* to view past Q&A tax columns.

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