

TaxUpdate- December 2025

The **One Big Beautiful Bill Act (OBBBA)** was signed into law on July 4, 2025, which significantly affects federal taxes, credits, and deductions. The following sections provide important information for the 2025 tax season. Unless otherwise stated, all changes apply only to 1040 Individual tax returns.

Standard Deduction. The higher standard deduction is no longer set to expire. Amounts will adjust annually after 2025. 2025 amounts-

- \$31,500 – Married filing jointly (MFJ) and qualifying surviving spouse
- \$23,625 – Head of household (HOH)
- \$15,750 – Single or married filing separately (MFS).
- **Personal exemptions** are permanently eliminated.

Senior Deduction. This is a new, temporary deduction for seniors available for tax years 2025–2028. This is in addition to the standard deduction and is available for both itemizers and non-itemizers.

- \$6,000 per qualified individual
- Taxpayers must be 65 or older by the end of the year
- This is subject to phase out if the MAGI exceeds \$75,000 (single/HOH); \$150,000 (MFJ); *Married taxpayers must file MFJ to claim the deduction.*

No Tax on Tips. Both itemizers and non-itemizers may claim a deduction for qualified tips if eligible. The maximum deduction is \$25,000, subject to phaseout for taxpayers with MAGI over:

- \$150,000 (single/HOH)
- \$300,000 (MFJ)
- For self-employed individuals, the deduction may not exceed their net income (without regard to this deduction) from the trade or business in which the tips were earned.

The "**No Tax on Overtime**" provision was enacted as part of the **One Big Beautiful Bill Act (OBBBA)** on July 4, 2025. It provides a federal income tax deduction for "qualified overtime compensation" required under Section 7 of the **Fair Labor Standards Act (FLSA)**.

- **Deduction Limits:** Eligible taxpayers can deduct up to **\$12,500** (single or Head of Household) or **\$25,000** (Married Filing Jointly) of their qualified overtime pay from their federal taxable income.
- **Qualified Overtime Definition:** Only the **premium portion** of overtime pay is deductible. This is typically the extra "half" in time-and-a-half pay (e.g., if you earn \$20/hr. regular and \$30/hr. overtime, only the \$10/hr. premium qualifies).
- **Income Phaseout:** The deduction begins to phase out for taxpayers with a Modified Adjusted Gross Income (MAGI) exceeding **\$150,000** (single/HOH) or **\$300,000** (MFJ). The deduction is reduced by \$100 for every \$1,000 of MAGI above these thresholds.
- **Itemizing vs. Standard Deduction:** This is an "above-the-line" deduction, meaning it is available to **both itemizers and non-itemizers**.
- **Tax Scope:** This deduction applies **only to federal income tax**. Overtime pay remains subject to Social Security, Medicare, and applicable state or local taxes

SALT Deduction. State & Local Taxes- Temporary increase in the SALT deduction cap to \$40,000 in 2025. This is subject to income-based reduction if the taxpayer's MAGI exceeds the following threshold \$500,000 (single/joint). \$250,000 (MFS) Adjustments to the limitation and threshold amounts are planned through 2029. After 2029, the limitation will be \$10,000 with no threshold.

Mortgage Interest Deduction. Available if you itemize deductions on your tax return. The deduction limit is capped at interest on \$750,000 of acquisition debt.

Home Equity Indebtedness Interest. Only deductible if used to buy, build, or substantially improve the home.

Child Tax Credit (CTC). The maximum Child Tax Credit (CTC) available has been increased to \$2,200 per child, effective 2025. This amount will be adjusted for inflation in future years. The refundable portion, up to \$1,700 in 2025, is now permanently extended and will be indexed for inflation. To claim the Child Tax Credit, both the qualifying child and the taxpayer (or at least one spouse if filing jointly) must have a Social Security Number that is valid for employment, and it must be issued before the due date of the tax return, including extensions.

Other Dependent Credit (ODC). The Other Dependent Credit (\$500) for taxpayers with a dependent who does not qualify for the CTC is permanent.

Child and Dependent Care Tax Credit. The credit percentage range has changed. The credit percentage chart now ranges from 50% for taxpayers with AGI of \$15,000 or less, with the lowest credit percentage of 20% for AGI over \$103,000 (\$206,000 MFJ). The expense limit of \$3,000 (\$6,000 for two or more qualifying people) remains unchanged.

Trump Saving Accounts. For children under 18. Federal will deposit \$1,000 for kids born 2025-2028. Annual limitation is \$5,000. Employers may deposit \$2,500 as a free fringe benefit tax-free. Trump Accounts cannot be funded before July 4, 2026.

Adoption Credit. The Adoption Credit is now refundable for up to \$5,000, effective in 2025. The carry-forward amount cannot be used to calculate the refundable portion.

Deduction for Car Loan Interest Covers. A qualified passenger vehicle loan interest up to \$10,000. Both itemizers and non-itemizers can claim this deduction. And only certain individuals and vehicles qualify. Phaseout: Reduced \$200 for each \$1,000 of MAGI over \$100,000 (single/HOH) or \$200,000 (MFJ). Notably,

- The loan must have originated after December 31, 2024,
- The vehicle must be for personal use
- Used vehicles are not eligible.
- A lien on the vehicle must secure the loan,
- Final assembly in the United States.

Earned Income Credit (EITC)- For tax year 2025, you are ineligible to claim the Earned Income Tax Credit (EITC) if your "disqualifying income," which includes interest, dividends, and capital gains, exceeds **\$11,950**. This is an increase from the \$11,600 limit in 2024. The maximum EIC is:

No Children: \$649; **One Child:** \$4,328; **Two Children:** \$7,152; **Three or More Children:** \$8,046

Dependent Care Credit. The taxpayer must have earned income. The credit is calculated based on income and the percentage of expenses incurred for the care of qualifying individuals who are working, seeking work, or attending school. Depending on income, a credit of up to 35% of qualifying childcare expenses for their younger children under age 13. At a minimum, it's 20% of those expenses. For 2025, the maximum eligible expense for this credit is \$3,000 for one qualifying person and \$6,000 for two or more qualifying persons.

American Opportunity Tax Credit. The credit applies to qualified education expenses paid for an eligible student during the first four years of higher education. Maximum annual credit of \$2,500 per eligible student. If the credit brings the amount of tax you owe to zero, you can have 40 percent of any remaining amount of the credit (up to \$1,000) refunded to you. The amount of the credit is 100% of the first \$2,000 of qualified education expenses you paid for each eligible student and 25% of the next \$2,000 of qualified education expenses.

The Lifetime Learning Credit (LLC) is for qualified tuition and related expenses paid for eligible students enrolled in an eligible educational institution. This credit can help pay for undergraduate, graduate, and professional degree courses — including courses to acquire or improve job skills. There is no limit on the number of years you can claim the credit. It is worth up to \$2,000 per tax return.

Student loan forgiveness in 2025. If you qualified for any of the forgiven amounts, it will be excluded from your income for federal tax purposes. You may, however, be liable for state or local income taxes.

Required Minimum Distribution (RMD). A Required Minimum Distribution (RMD) is the minimum amount you must withdraw annually from your retirement account. Based on the SECURE 2.0 Act, your Required Beginning Date (RBD) is generally April 1 of the year after you reach the applicable age:

- Born before July 1, 1949: RBD is April 1 of the year after you turn 70½.
- Born July 1, 1949 – Dec. 31, 1950: RBD is April 1 of the year after you turn 72.
- Born 1951 – 1959: RBD is April 1 of the year after you turn 73.
- Born 1960 or later: RBD is April 1 of the year after you turn 75.

Important Notes for 2025

- Turning 73 in 2025: If you were born in 1952 (73 in 2025). Your first RMD is due on April 1, 2026.
- Penalty for Missing RMD: If you fail to take the full RMD by the deadline, the penalty is 25% of the amount not withdrawn (reduced to 10% if corrected within two years).
- **Employer Plans:** If you are still working and do not own more than 5% of the business, you may be able to delay RMDs from your current employer's plan until you retire, regardless of age.

QCD for RMD: *You should consider a Qualified Charitable Distribution (QCD) from a traditional IRA, which can reduce your taxable income dollar-for-dollar if you are required to take a Minimum Distribution from your retirement account.*

Digital Assets & Payment Reporting. Form-1099 DA, *Digital Asset Proceeds from Broker Transactions*, is a new IRS form that may be used to report sales, exchanges of digital assets like cryptocurrencies, stablecoins, and non-fungible tokens (NFTs).

Form-1099 K Reporting Requirements. For payments received through third-party settlement organizations (TPSOs) like PayPal or Venmo for goods and services:

- The federal reporting threshold for the 2025 tax year is if the gross amount of payments exceeds \$20,000 *and* the number of transactions exceeds 200.

- The planned \$2,500 threshold for 2025 was eliminated by the One Big Beautiful Bill Act, which reinstated the original, higher threshold. *Some states may have a lower reporting threshold, which could result in Form 1099-K being issued even if the federal threshold is not met.*

Important Note: *Regardless of whether you receive a Form 1099-K, all income from the sale of goods or services is considered taxable and must be reported on your tax return. Personal transactions, such as gifts or reimbursements for shared expenses, are not considered taxable income.*

Mileage Rates for 2025. Business: 70¢ per mile; Charitable: 14¢ per mile; Medical or Active-duty Military moving 21¢ per mile (remains unchanged from 2024).

Section 179 Deduction Limit. The Section 179 deduction limit for 2025 has been increased to \$2.5 million. The Section 179 investment limit for 2025 has been increased to \$4 million. Both amounts will be adjusted annually for inflation going forward.

Energy Credits and Deductions. Based on [IRS Fact Sheet 2025-05](#) and [IRS Notice 2025-42](#). These updates follow the enactment of the One Big Beautiful Bill Act (OBBBA) on July 4, 2025, which accelerated the sunset dates for many clean energy incentives.

Residential and Home Improvement Credits

- Energy Efficient Home Improvement Credit (Section 25C): Not allowed for any property placed in service after December 31, 2025.
- Residential Clean Energy Credit (Section 25D): Not allowed for any expenditures made after December 31, 2025.
- New Energy Efficient Home Credit (Section 45L): Not allowed for any qualified new home acquired after June 30, 2026.

Clean Vehicle Credits

- New Clean Vehicle Credit (Section 30D): Not allowed for any vehicle acquired after September 30, 2025.
- Previously Owned Clean Vehicles Credit (Section 25E): Not allowed for any vehicle acquired after September 30, 2025.
- Qualified Commercial Clean Vehicle Credit (Section 45W): Not allowed for any vehicle acquired after September 30, 2025.

Note: For vehicle credits, "acquired" is defined as the date a written binding contract is signed, and a payment (including a nominal down payment or trade-in) is made.

Paper Checks: The IRS is phasing out paper checks beginning September 30, 2025.

Your tax organizer will be available in your Secure File Portal by January 15, 2026.

The tax organizer questionnaire is especially important. When you answer these questions, it helps us focus on the key to preparing your tax returns (most answers are "no"). Most importantly, we wanted to ensure that you do not miss any potential tax deductions, underreport any amounts, or fail to disclose all information the IRS requires. We still need the annual information forms you receive for tax purposes.

Sincerely,

Tony Du, EA Dien Truong, EA

2026 Key Dates for 2025 Tax Year

For the 2025 tax year (filing in 2026), the major deadlines are:

- **January 15, 2026:** Final installment due for 2025 [estimated tax payments](#).
- **Late January 2026:** Official start of the tax season when the IRS begins accepting and processing federal returns.
- **February 2, 2026:** Deadline for employers to mail **W-2** forms and for payers to send most **1099** forms to recipients.
- **March 16, 2026:** Deadline for **S corporations** (Form 1120-S) and **Partnerships** (Form 1065) to file or request an extension.
- **April 15, 2026 (Tax Day):**
 - Final deadline to file **Individual** (Form 1040) and **C Corporation** (Form 1120) returns.
 - Last day to submit [Form 4868](#) for an automatic six-month extension.
 - Last day to make contributions to an **IRA or HSA** for the 2025 tax year.
 - First 2026 estimated tax payment due.
- **June 15, 2026:** Deadline for **U.S. citizens living abroad** to file returns (automatic 2-month extension), though interest still accrues on unpaid tax from April 15.
- **September 15, 2026:** Extended deadline for S corporations and partnerships.
- **October 15, 2026:** Final deadline for individuals and C corporations who filed for a six-month extension.

Quarterly Estimated Tax Deadlines

Individuals who do not have enough tax withheld from their income (such as freelancers or the self-employed) must pay [quarterly estimated taxes](#):

- **Q1 (Jan–Mar):** April 15
- **Q2 (Apr–May):** June 15
- **Q3 (Jun–Aug):** September 15
- **Q4 (Sep–Dec):** January 15 (of the following year)

Important Considerations

- **Weekends and Holidays:** If a deadline falls on a Saturday, Sunday, or legal holiday, it moves to the next business day.
- **Payment vs. Filing:** An extension to file is **not** an extension to pay. All taxes owed must still be paid by the original April 15 deadline to avoid interest and penalties.
- **Disaster Relief:** The IRS often grants automatic extensions for taxpayers in federally declared disaster areas. Current updates are available on the [IRS Disaster Relief page](#).

IF YOU ARE A BUSINESS OWNER- Remember to Take a Picture of Your Odometers on New Year's Day! Tracking automobile expenses and maintaining adequate mileage records are imperative. Whether you use actual expenses or a business mileage deduction, the same mileage records must be kept and provided to the IRS during an audit. What information will the IRS require to substantiate your business miles? You must log the total miles driven if you choose the standard mileage deduction. The IRS requires that, at the start of each trip, the odometer reading be recorded, and the purpose, starting location, ending location, and trip date be listed.

Mileage Rates for 2025: Business: 70¢ per mile; Charitable: 14¢ per mile; Medical or Active-duty Military moving 21¢ per mile (remains unchanged from 2024).

Snapshot of the Odometer Readings for your business vehicle.

