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CERTIFIED PUBLIC ACCOUNTANTS

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Newsletter September 2025

Dear clients:

We hope you all enjoyed the long holiday weekend. As summer is now unofficially behind us, the extended tax return filing deadlines are rapidly approaching.

If the returns for your partnership or S-corporation are in process with our office, and if we are waiting on additional information from you, we kindly ask that you forward us those outstanding items as soon as possible. Otherwise, the returns may not be filed timely by the September 15th extended deadline.

For our clients filing extended individual or corporate returns, the filing deadline is October 15th. The filing deadline for fiduciary returns is September 30th.

Please take care to forward our office your information as soon as possible. If you are waiting on a K1 from a third party, please forward us the rest of your information now and your K1 when you receive it. If we receive your information after September 15th, the returns may not be filed timely. If you have questions, please contact our office and we will gladly assist.

Sincerely,

Aaron Bagby
Kramer, Jensen & Bagby, LLC

Understanding the New Deduction for Overtime Under the OBBBA: A Comprehensive Guide

The recent passage of the One Big Beautiful Bill Act (OBBBA) marks a significant shift in the tax landscape, bringing with it a range of changes aimed at easing the financial burden on American workers. Among these changes, the introduction of a new deduction for overtime pay is of particular interest. This article will explore what constitutes deductible overtime under the OBBBA, the specifics of the deduction, its limitations, and why it’s crucial for taxpayers to understand these newfound regulations.

Defining Deductible Overtime: Beyond the Surface

The OBBBA introduces an above-the-line deduction for overtime premium pay, which might not be as straightforward as it appears or what a worker envisioned when first hearing about it. The deduction applies specifically to "qualified overtime compensation," defined as the portion of overtime pay that exceeds the regular rate of pay under the Fair Labor Standards Act of 1938. This means that not all overtime compensation is deductible; only the premium portion is eligible. This subtle distinction is crucial for taxpayers and tax preparers to consider when calculating potential deductions.

For example, if a worker has a standard pay rate of $40 per hour and earns overtime pay at a rate of $55 per hour, the deductible portion is the $15 premium for each overtime hour worked, not the entire $55. Understanding what portion of overtime counts toward this deduction can significantly influence the overall tax savings for a worker.

Maximum Deduction and Income-Based Limitations

The OBBBA sets limits on the deduction amount taxpayers can claim in a year. The maximum allowable deduction is capped at $12,500 for individual filers and $25,000 for those filing a joint return. However, these benefits are further subject to modifications depending on the taxpayer's Modified Adjusted Gross Income (MAGI).

MAGI is a critical concept in determining eligibility for this deduction. It is calculated by taking the adjusted gross income (AGI) and adding back certain deductions and exclusions, such as those related to foreign earned income. The MAGI-based limitation reduces the deduction by $100 for every $1,000 that a taxpayer's MAGI exceed $150,000 for single filers or $300,000 for joint filers. Therefore, taxpayers with higher incomes might find their potential deductions diminished or eliminated, emphasizing the importance of accurately calculating MAGI to fully capture eligible tax benefits.

Effective Date and Temporary Application

This deduction is not a permanent addition to the tax code. It applies to taxable years starting in 2025 and is set to sunset after 2028. This temporary nature requires taxpayers and preparers to be aware of both the starting point for when this financial relief becomes available and its conclusion. Timely adjustments in financial planning and tax strategies can ensure maximum benefits are captured during this window.

Married Filing Joint Stipulation and SSN Requirement

To claim the deduction for qualified overtime compensation, a married individual must file jointly with their spouse. This stipulation necessitates that married couples coordinate their tax strategies to take full advantage of this deduction. Moreover, taxpayers must provide their Social Security Number (SSN) on the tax return to qualify. Failure to include the SSN is treated as a mathematical or clerical error, potentially leading to an adjustment of the return.

Impact on Withholding and Other Considerations

Withholding adjustments are an important consideration for both employers and employees following the implementation of this deduction. Starting in 2025, the Secretary of the Treasury will modify withholding procedures to accommodate the new deduction, which could impact payroll processes. Employers need to stay informed about these changes to ensure compliance and help employees understand their revised withholdings.

It is essential to note that this deduction reduces only income tax, not contributions to the Federal Insurance Contributions Act (FICA) taxes, which fund Social Security and Medicare. Therefore, while the deduction can ease income tax burdens, it doesn't affect the withholding or payment of FICA taxes, which is an important distinction when considering overall tax liability.

Conclusion: Navigating the Temporary Overtime Deduction

The overtime deduction introduced by the OBBBA represents a substantial opportunity for tax savings, particularly for those who frequently earn overtime. However, understanding the nuances—such as what constitutes qualified overtime, the effects of MAGI, and procedural requirements like joint filing and SSN inclusion—is imperative. As this deduction is available only through 2028, tax preparers and taxpayers must act quickly to incorporate it into their strategies and optimize their tax outcomes during its period of effectiveness.

While this deduction provides temporary relief, its impact has the potential to be significant. Individuals should prepare to adapt their financial planning and payroll operations to maximize this benefit, all while staying vigilant of its temporary nature to avoid unforeseen adjustments when it phases out after 2028.

Tax Break for Businesses: 100% Bonus Depreciation is Back Plus New Expensing of Qualified

Production Property

The reinstatement of bonus depreciation is a critical component of recent U.S. tax legislation aimed at fostering economic growth. The 2017 Tax Cuts and Jobs Act (TCJA) had already put significant emphasis on bonus depreciation, but its permanent reinstatement under the "One Big Beautiful Bill Act" at 100% further emphasizes its importance, especially after considering the economic ramifications of the pandemic. This article explores the tax benefits, historical context, applicability, and specific rules surrounding bonus depreciation, ultimately outlining the recent changes in its reinstatement.

- **Historical Context: Originally Enacted to Stimulate the Economy** - Bonus depreciation was first introduced as part of the Job Creation and Worker Assistance Act in 2002, allowing businesses to immediately deduct a substantial amount of the cost of qualifying property, rather than having to recover the cost as depreciation over a number of years. Initially, the deduction was set at 30% but was later increased to 50% and eventually to 100% during specific economic downturns.

  The TCJA significantly altered bonus depreciation by allowing a 100% first-year deduction for qualified property, which was a substantial incentive for businesses. This provision was aimed at encouraging capital procurement and economic growth. However, the TCJA also included a sunset provision that began phasing out the bonus depreciation rate starting in 2023, and by 2027 no bonus depreciation would have been allowed.

- **Tax Benefits of Bonus Depreciation** - Bonus depreciation allows businesses to fully deduct the cost of assets in the year they are placed into service, providing immediate tax relief and encouraging investment. This benefit enhances a company's cash flow by reducing taxable income, making it a powerful incentive for purchasing new assets. However, utilizing bonus depreciation effectively requires careful planning. For example, the Section 199A deduction is based on qualified business income (QBI), and writing off large capital purchases can reduce an entity's profit, consequently decreasing the Sec 199A deduction. Conversely, reducing taxable income might help avoid certain phase-outs and limitations associated with 199A.

- **Qualification Criteria for Bonus Depreciation** - Qualifying property generally includes tangible property with a recovery period of 20 years or less, computer software, water utility property, and qualified improvements and productions. Recovery periods are set by the IRS. For example, most business vehicles have a recovery period of 5 years, while it is 7 years for most office equipment. No bonus depreciation is allowed for real property since the recovery period is either 27.5 or 39 years, depending on how the real property is used.

  The TCJA expanded the scope of eligible property to include both new and used qualifying property, enhancing the attractiveness of investing in second-hand equipment. Public utility properties and dealer properties related to vehicles are specifically excluded, adding a layer of complexity.

- **Qualified Improvement and Property Issues** - Qualified improvement property initially experienced legislative challenges. The intent under the TCJA was to combine properties such as leasehold, restaurant, and retail improvements into a category eligible for bonus depreciation under a 15-year MACRS recovery period. However, an oversight initially excluded these properties, later corrected by the CARES Act.

- **Revoking Bonus Depreciation and AMT Implications** - Typically, opting out of bonus depreciation can only be revoked with IRS consent unless made on a timely filed return, allowing revocation within six months on an amended return. One noteworthy benefit is that property with claimed bonus depreciation is exempt from alternative minimum tax (AMT) adjustments, aligning AMT depreciation relief with regular tax purposes.

- **Business Automobiles and Other Depreciation Rules** - Special rules and deduction limitations apply to business automobiles categorized as "luxury autos." The depreciation limit is augmented by $8,000 in years when bonus depreciation is permitted, as established by the TCJA. It is not addressed in OBBBA so it is assumed the extra amount will continue.

Related party rules, and the application of Section 179, which requires pre-bonus depreciation adjustments, add further complexity. (Section 179 provides another way to write off purchase of some business property without having to depreciate the asset's cost, but the deduction will need to be recaptured if business use drops to 50% or less in a year after the year placed in service.)

- **Issues Addressed by the Recent Legislation -** The OBBBA reinstatement extends the 100% deduction for qualified property purchased and placed in service after January 19, 2025. OBBBA has made bonus depreciation permanent. For qualifying property placed in service between January 1, 2025, and January 19, 2025, the bonus depreciation remains at 40%.

  This continuity provides businesses with long-term planning capabilities and aligns investments with broader economic policies intended to spur growth.

- **Qualified Production Property -** The "One Big Beautiful Bill Act" also introduced a provision to promote manufacturing in the U.S. Under pre-OBBBA law, taxpayers were generally required to deduct (depreciate) the cost of business-related nonresidential real property over a 39-year period. And bonus depreciation was generally limited to tangible personal property, not real estate.

  Effective for property placed in service after July 4, 2025, OBBBA generally, allows taxpayers to immediately deduct 100% of the cost of certain new factories, certain improvements to existing factories, and certain other structures. Specifically, this provision allows taxpayers to deduct 100% of the adjusted basis of qualified production property in the year such property is placed in service.

  Qualified Production Property refers to specific portions of nonresidential real property that meet a set of criteria:

  - The property must be used by the taxpayer as an integral part of a qualified production activity.
  - It must be placed in service within the United States or any possession of the United States.
  - The original use of the property must commence with the taxpayer.
  - Construction of the property must begin after January 19, 2025, and before January 1, 2029.
  - The property must be designated by the taxpayer in an election on the taxpayer's tax return. The IRS will issue instructions on how to make this election.
  - The property must be placed in service before January 1, 2031.
  - Any portion of a property that is used for offices, administrative services, lodging, parking, sales activities, research activities, software engineering activities, or certain other functions is **ineligible** for this benefit

- **Production Machinery:** Even though manufacturing machinery that does not qualify as qualified production property is not expensed under this provision, it will generally qualify for 100% bonus depreciation that is reinstated by OBBBA.

- **Qualified Production Activity:** Generally, a "Qualified Production Activity" is defined as follows:

  1. **Activities Involved:** It refers to the manufacturing, production (limited to agricultural and chemical production), or refining of a qualified product. These activities should result in a substantial transformation of the property comprising

the product.

2. **Qualified Product:** A qualified product refers to any tangible personal property that is not a food or beverage prepared in the same building as a retail establishment in which such property is sold.

In summary, for an activity to qualify under this section, it must involve significant production or transformation processes, **excluding** certain types of agricultural and chemical productions.

Recapture rules apply in certain cases where, during the 10-year period after qualified production property is placed in service, the use of the property changes. When the property is sold, to the extent of the bonus depreciation taken, any gain will be ordinary income rather than capital gain,

The reinstatement of bonus depreciation is a vital tool for economic rejuvenation, providing businesses with immediate tax incentives to make capital investments. While it offers substantial benefits, understanding the complexities and planning strategically around QBI deductions, AMT implications, and specific qualifications is essential. Amid legislative nuances and phased-out provisions, bonus depreciation remains a keystone in strategic business planning for enduring economic development. The addition of the qualified production property provides a huge incentive for building production facilities in the U.S. While thought of as a deduction for big business, it can also apply to small manufacturing facilities.

If you are in business and have questions about how the Bonus Depreciation can benefit your business, please contact this office.

Last Chance: The One Big Beautiful Bill Countdown on Key Energy Tax Credits

In recent years, as the conversation about climate change has intensified, the federal government sought to encourage homeowners and consumers towards sustainable energy solutions by providing tax credits for various green initiatives. The installation of solar panels, upgrading to energy-efficient home systems, and purchasing electric vehicles (both new and used) have all been incentivized. However, a sweeping legislative change known colloquially as the "One Big Beautiful Bill" Act significantly alters the landscape of these tax credits, accelerating their expiration and thus requiring consumers to mobilize and act quickly if they wish to take advantage of the related tax benefits.

Home Solar Energy Credits - The Residential Clean Energy Credit has been a linchpin in encouraging homeowners to invest in solar electric properties. Prior to the new legislation, this credit offered a significant financial incentive, allowing a 30% deduction from federal taxes of the cost of installing solar systems. This applied to installations of qualified solar electric property, solar water heating property, geothermal heat pumps, and wind energy systems.

Under previous regulations, expenditures made for property placed in service through December 31, 2032, were eligible for the credit. However, the "One Big Beautiful Bill" mandates a new, aggressive sunset date: December 31, 2025. This means that homeowners must have their systems installed and functional by this deadline to benefit. It’s crucial for homeowners to not only install the solar energy property, but also ensure a building inspector's sign-off before the curtains fall on this credit.

Home Energy Efficient Improvements Credit - The Energy Efficient Home Improvement Credit was offered to taxpayers improving their residence with qualified energy efficiency improvements. Homeowners could claim 30%, up to $1,200 annually, of the cost associated with improvements such as high-efficiency HVAC systems, upgraded insulation, exterior doors, and energy-efficient windows and skylights.

This credit was originally available for qualifying property placed in service by December 31, 2032. However, the new legislative act changes this, imposing a new expiration date of December 31, 2025. This fast-approaching deadline means homeowners looking to capitalize on this tax incentive need to act quickly. Notably, efficiency improvements often require final approval from local building inspectors, further underscoring the necessity for immediate action.

Credits for Electric Vehicles (EV)

1. **The New EV Credit:** The Clean Vehicle Credit, designed to encourage the purchase of new clean vehicles, has similarly seen shifts. This federal incentive provided a credit of up to $7,500 for each new EV placed in service, contingent on meeting critical mineral and battery component requirements. The aim was to motivate domestic manufacturing and the development of reliable, sustainable supply chains.

The maximum cost of the vehicle (manufacturer's suggested retail price (MSRP)) cannot be more than $80,000 for vans, pickups and SUVs, and $55,000 for others. In addition, the vehicle must be assembled in the U.S.

While prior law allowed eligibility for purchases through 2032, the act now terminates this benefit for vehicles acquired post-September 30, 2025. This acceleration demands that consumers fast-track their buying decisions to avail themselves of the credit.

2. **The Previously Owned EV Credit:** Similarly, the Previously Owned Clean Vehicles Credit encouraged purchases of used electric vehicles. This credit offered the lesser of $4,000 or 30% of the vehicle's sale price, with restrictions on qualifying vehicles, as well as income caps for purchasers to be eligible, limits on sale prices not exceeding $25,000, and requirements mandating that sellers must be registered dealers.

Initially set to cease in 2032, the new legislation advances this credit's expiration to September 30, 2025. Prospective buyers must act swiftly and strategically, especially as vehicle inventories adjust in response to the regulatory shift.

The Urgency to Act - This comprehensive shift in energy-focused tax credits, facilitated by the "One Big Beautiful Bill," communicates a clear message to consumers and homeowners: act now or risk missing out on financial incentives encouraging the adoption of sustainable technologies.

Consumers venturing into energy improvements and environmentally friendly vehicles must rev up their planning, procurement, and installation timelines. The reduction of these tax credits, once aimed at easing the burden of going green, indicates a notable policy shift that contradicts previous trends in government-backed incentives for sustainable practices.

Call to Action - For those contemplating renewable energy investments or the addition of clean vehicles to their household, the message is urgent yet clear—complete your installations and purchases promptly. Ensure all necessary inspections and paperwork are finalized well in advance of the adjusted deadlines.

As these federal tax credits prepare for their impending departure, the chance to capitalize on them shrinks by the day. The "One Big Beautiful Bill" has set the stage for a contentious legislative landscape in environmental initiatives, stressing the necessity for decisive action to close the book on this chapter of incentivized green energy transitions.

If you have questions related to qualifications and deadlines for the credits, contact this office.

The 2025 Guide to Small Business Tax Deductions You Can't Afford to Miss

When it comes to running a successful small business, every dollar counts. Yet every year, many owners miss out on valuable tax deductions — and with them, the chance to strengthen their cash flow and reinvest in growth.

In 2025, smarter tax planning isn't optional. It's a financial strategy that can give your business a real edge. Here are deductions every small business should be reviewing this year.

Key Deductions to Review

Home Office Expenses
If you use part of your home exclusively for business, you may qualify to deduct a portion of your housing costs — from rent or mortgage to utilities and internet.

100% Bonus Depreciation
Purchases like computers, office furniture, and equipment may qualify for full upfront deductions instead of being depreciated over time, putting cash back in your business now.

Health Insurance Premiums
Self-employed owners may be able to deduct premiums for themselves and their family reducing both personal and business expenses.

Marketing and Advertising
Investments in your website, digital advertising, and marketing campaigns not only grow your business — they're also fully deductible.

Retirement Contributions
Contributions to a SEP IRA, SIMPLE IRA, or 401(k) help secure your financial future while lowering taxable income today.

The Cost of Missing Out

Every deduction you capture strengthens your bottom line. Every deduction you miss is money lost — money that could have funded payroll, new technology, or expansion.

Let's Maximize Your Deductions — and Your Growth

Tax planning should do more than meet deadlines. It should strengthen your cash flow, fuel your growth, and prepare you for the opportunities ahead.

Schedule a 2025 planning session with our team and let's make sure your business is ready to thrive.

Got an IRS Notice? Here's How to Handle It Without Losing Sleep

Few things can rattle a business owner faster than seeing "Internal Revenue Service" on an envelope. The instinct is to panic. But the truth? An IRS notice doesn't automatically mean you've done something wrong.

In 2025, notices are more common than ever. Many are generated automatically when systems flag something for review — a missing form, a math discrepancy, or a question about deductions. The real danger isn't the letter itself — it's how you handle it.

Why the IRS Sends Notices

Notices may arrive for reasons such as:

- Questions about tax credits or payments
- Mismatched data between your return and third-party reporting
- Requests for additional documentation

The IRS wants clarification — not confrontation. But if the notice is ignored or mishandled, small issues can grow into costly problems.

What Not to Do

- Don't ignore it. Penalties and interest grow quickly.
- Don't call the IRS unprepared. Miscommunication is common.
- Don't guess. A hasty response can make matters worse.

What You Should Do Right Away

1. Open the notice immediately. Understand the issue and the deadline.
2. Gather supporting documents. Returns, statements, and receipts matter.
3. Reach out to our office. As experienced advisors, we know how to translate IRS language and respond effectively.

Why Acting Quickly Matters

Every missed deadline limits your options — and every day you wait adds stress that pulls you away from running your business. Timely action often means quick resolution, sometimes without even writing a check.

Let's Handle This Together

Your time should be spent growing your business — not losing sleep over an IRS letter. We'll work with you to respond correctly, protect your bottom line, and put this issue behind you.

Contact us today and let's resolve your IRS notice so you can get back to what matters mos

Launching a Bright Financial Future: Tax Benefits for Your Children

Setting up a child's financial future can be one of the most impactful gifts parents, grandparents, relatives, and friends can provide. By leveraging various tax-advantaged accounts and strategies, you can not only contribute to a child's immediate financial needs but also lay a foundation for lifelong financial security. Here's a comprehensive look at the options available, including the recently introduced Trump Accounts, Section 529 plans, and other beneficial strategies.

Trump Accounts: A New Tax-Advantaged Tool

- **Introduction to Trump Accounts** - Trump Accounts, established by recent tax reforms, are a novel type of tax-deferred investment vehicle created to encourage savings for children. These accounts can be opened by parents or guardians for children under 18 who are U.S. citizens and have a Social Security number. Contributions can come from various sources, including parents, relatives, employers, non-profit entities, and in some cases the federal government. They are essentially a type of individual retirement account (IRA) but without the requirement that the child have earned income.

- **Contribution Rules** - Annual contributions to Trump Accounts are capped at $5,000 (will be automatically adjusted for inflation). Interestingly, contributions from tax-exempt entities, like foundations, do not count towards this limit, provided they benefit a qualified group of children. It's important to note that no contributions can be made by anyone once the child reaches age 18. Contributions to Trump Accounts are not tax deductible.

- **Distribution Guidelines** - Generally, distributions from a Trump account cannot be made until the account holder turns 18. However, it's worth noting that withdrawals of earnings, but not the original contributions, before the age of 59½ are subject to ordinary income tax and a 10% early distribution penalty unless they qualify for any of many exceptions afforded to IRAs.

- **Government Contributions -** To generate interest in the Trump Accounts Congress created a pilot program wherein the federal government contributes $1,000 into the account of every eligible newborn child. This contribution is for U.S. citizens born between January 1, 2025, and December 31, 2028. The contribution is treated as if the child made a $1,000 payment against their income tax, with the amount getting credited back to their Trump Account. This automatic initiative is designed to kick-start savings and investment for the child's future, encouraging early financial planning and helping families build a foundation for long-term financial growth. Additionally, if the account is not opened by the time the first tax return is filed where the child is claimed as a qualifying child dependent, the Secretary of the Treasury will establish the account on the child's behalf, ensuring that no eligible child misses out on this benefit.

- **Timing** – It is anticipated that parents (and others) will be able to make the first contributions to Trump Accounts in mid-year 2026. Watch for more details as the government works out the logistics of these new accounts, such as how to establish a Trump Account, over the next few months.

Section 529 Plans: Time-Tested Education Savings

- **What is a 529 Plan?** A Section 529 plan is a tax-advantaged savings account specifically designed to save for education expenses. It provides a platform to accumulate funds that grow tax-deferred and can be withdrawn tax-free when used for qualified education expenses.

- **Contributions and Gift Tax Considerations:**

  - Who can contribute? Parents, grandparents, and even family friends can contribute to a 529 plan on behalf of a child. There are no income restrictions on who can open or contribute to these plans.

  - **Annual Contribution Limits: To avoid gift tax implications, contributions should remain within the annual gift tax exclusion limits, $19,000 per beneficiary (as of 2025) for single filers and $38,000 for married couples.**

  - **5-Year Lumping Strategy: Contributors can front-load the account by making five years' worth of contributions at once. This strategy allows up to $95,000 (or $190,000 for married couples) per beneficiary without incurring gift taxes, assuming no other gifts are made during the five years.**

    Additionally, if the annual gift tax exclusion increases during this five-year period, contributors have the flexibility to make makeup contributions, aligning with the new exclusion limits, and further enhancing the potential investment into the child’s future education savings.

  - **Uses and Flexibility: Funds from a 529 plan can be used for a variety of education-related expenses, including tuition, fees, books, and even room and board when attending college. Recent law changes have expanded the allowable use of 529 plan funds to include up to $20,000 ($10,000 if paid before July 4, 2025) per year for K-12 tuition and related expenses. Costs of certain apprenticeship programs are also eligible. If the original beneficiary doesn’t need the funds, the account owner can change the beneficiary to another family member.**

  - Rollover Opportunities: In situations where the funds in a 529 plan exceed educational needs, the Secure Act 2.0 allows rollovers of up to $35,000 from a 529 plan to a Roth IRA for the beneficiary, provided the 529 has been open for at least 15 years. This option ensures that the savings are not wasted and continue to benefit the recipient’s financial health.

Employing a Child in Family Business: The Benefits: Engaging a child in meaningful work within a family business or elsewhere not only instills a strong work ethic but also presents various tax advantages.

- **Income Tax Benefits:**
    - **Reasonable Compensation: For employing a child in a parent's business, the child can earn up to the standard deduction amount tax-free. For 2025, this is $15,750, meaning the child doesn't have to pay federal income tax on earnings below this threshold.**
    - **Business Deductions: The wages paid to children can be deducted as a business expense, which helps reduce the taxable income of the business and potentially lowers overall tax liability. Additionally, if the parent's business is not incorporated—meaning it operates as a sole proprietorship or a partnership where both partners are the child's parents—the wages paid to the child are not subject to FICA taxes (Social Security and Medicare taxes) if the child is under the age of 18, providing an added tax advantage by lowering employment tax expenses.**
- **Retirement Account Contributions:** A child's earned income opens the door to funding a retirement account early.
    - **Roth IRA: If they have earned income, children can contribute to a Roth IRA, up to the lesser of their earned income or the annual contribution limit ($7,000 for 2025). The contributions grow tax-free, and withdrawals in retirement are also tax-free, providing a significant financial advantage.** A Roth IRA is often considered an excellent choice for children with minimal taxable income due to several unique features and benefits:
    - **Tax-Free Growth: Contributions to a Roth IRA are made with after-tax dollars, and the investments grow tax-free. Given that children are likely in the lowest tax bracket, the tax-free growth aspect is highly beneficial over the long term.**
    - **Tax-Free Withdrawals in Retirement: Qualified withdrawals from a Roth IRA are tax-free, which means that both the contributions and the substantial growth that can occur over decades are not taxed upon withdrawal, maximizing the money available in retirement.**
    - **Flexibility: Contributions (but not earnings) to a Roth IRA can be withdrawn at any time for any reason without penalty or taxes. This accessibility makes it a flexible option if the child needs the money for unplanned expenses.**
    - **Maximizing the Power of Compounding: Starting a Roth IRA early gives the investments more time to benefit from compound interest. Even small contributions can grow significantly over a long period, creating a sizable nest egg for retirement.**
    - **No Required Minimum Distributions (RMDs): Unlike traditional IRAs, Roth IRAs do not require minimum distributions during the account holder's lifetime. This allows funds to potentially grow untouched or be passed on to heirs.**
    - **Earning Income Requirement: Opening a Roth IRA for a child requires that the child have earned income. Encouraging children to earn and contribute to their own retirement funds can instill a savings habit and financial responsibility early on.**

    These features make the Roth IRA an appealing option to begin a child's journey toward financial independence and retirement savings, especially when their income is low and the tax impact is minimal.

Additional Strategies: Other Financial Boosts

- **Saving for Retirement Early:** Even minors are eligible to have a Roth IRA if they have earned income.

- **Teaching Financial Responsibility:** Encouraging savings habits early, whether through structured accounts like a Trump Account and 529 plans or personal savings programs, fosters lifelong financial discipline.

- **Encouraging Entrepreneurial Ventures:** If your child shows interest in launching their own small business or providing services, such as tutoring or dog walking, this experience can also lead to early financial growth, teach important money management skills, and generate income that can fund savings or retirement accounts.

Conclusion: The array of financial vehicles available today, from Trump Accounts to 529 plans and beyond, offer a robust toolkit for shaping a child's financial future. These options not only help in covering educational and immediate expenses but also build a financial framework that supports investment acumen and retirement savings. By taking full advantage of these tools, those eager to support a child's financial journey can effectively set them on the right foot for a prosperous future. Whether it's starting a savings account, employing them in a family business, a summer job, or ensuring their education is funded, these strategies cement a legacy of financial security and prudence that will benefit future generations.

If you have questions related to any of these tax benefits, please contact this office.

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time.

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