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The IRS Just Got Leaner - But Not Softer on Enforcement

The IRS is going through what you might call an identity crisis. **Thousands of employees have been laid off** right in the middle of tax season, including auditors, tech staff, and even customer service reps. Throw in yet another commissioner swap and a partial reset on their modernization plans, and you've got a recipe for confusion.

And here's the kicker: confusion at the IRS doesn't mean less enforcement. It usually means more automation, fewer humans to talk to, and longer waits for everyone else.

Customer Service? Don't Count On It

Think of the IRS right now as an understaffed call center. Reduced phone support, fewer walk-in centers, and slower processing times mean that if your return gets flagged, it could sit there… and sit there.

Refunds delayed. Notices piling up. Stress levels: climbing.

Enforcement: Smarter, Not Softer

Yes, audit staffing has been slashed. But don't mistake that for mercy. The IRS is shifting gears and leaning into **automation and AI to spot inconsistencies**. That means crypto transactions, offshore accounts, and suspicious deductions are more likely than ever to trigger a letter.

And enforcement isn't random. The IRS has made clear it's targeting **automation and AI to spot inconsistencies** — think business owners, real estate investors, and anyone with large deductions or overseas holdings. If you fall into one of these categories, assume you're on their radar.

When it comes to collections? They're dusting off the old tools: bank levies, wage garnishments, even door-knocks from Revenue Officers. AI doesn't sleep — and it doesn't lose paperwork.

Red Flag Watchlist for 2025

If you're in any of these categories, expect a sharper eye on your return:

- **Cryptocurrency transactions** – unreported gains are low-hanging fruit.
- **ERC or PPP claims** – IRS is cracking down on fraud and aggressive filings.
- **Offshore accounts** – FBAR and FATCA enforcement are heating up.
- **High deductions or credits** – especially for small businesses and self-employed taxpayers.
- **High-income filers** – the IRS is prioritizing audits of wealthy individuals.

Tip: If one (or more) of these fits you, get documentation in order before filing. A tax pro can *help you preempt problems rather than scramble after the fact.*

Why a Tax Pro Is Your Secret Weapon

Here's the good news: you don't have to navigate this mess alone. A seasoned pro knows how to:

- **Cut through the red tape.** While everyone else is waiting on hold, pros know back channels and proven strategies like First-Time Abatement or structured installment plans.
- **Stop false alarms.** When algorithms overreach, a pro can push back with logic and documentation.
- **Protect you from penalties.** From high-net-worth audits to offshore reporting, the right strategy today can prevent years of pain tomorrow.

In a world where the IRS is both shrinking and sharpening, having a pro in your corner isn't optional — it's insurance.

What Taxpayers Should Do Right Now

- File early and electronically.
- Document everything — especially crypto, business, or side hustle income.
- Stay ahead of new rules (like the recently passed **No Tax on Tips Act**).
- Call in help if your return is anything more than straightforward.

The Bottom Line

The IRS is a paradox in 2025: smaller in size, bigger in bite. They're rolling out fewer humans, more automation, and sharper tools for enforcement.

For taxpayers, that means two things:

1. Don't assume you'll slip through the cracks.
2. Don't assume you can handle it all alone.

Because while the IRS figures itself out, you still have to figure out your taxes. And the smartest move you can make this year? Have a seasoned pro in your back pocket.

Contact us today to get expert guidance before the IRS comes knocking.

Vehicle Loan Interest Deduction A Restrained Tax Benefit

Article Highlights:

- The Deduction
- The Limitations: A Narrow Pathway to Eligibility
- Personal Use Vehicle
- No Recreational Vehicles
- Vehicle Loan
- Final Assembly
- Highway Use
- Income Limits
- Limited Availability
- The Enduring Question of Benefit Versus Burden

In the swirling complexities of tax legislation, even well-intentioned provisions can seem like offers of relief that arrive weighed down with restrictions. The OBBBA provision, which allows taxpayers to deduct up to $10,000 of interest paid on passenger vehicle loans, is poised to be one such measure. On the surface, it beckons with the promise of financial relief; however, for many taxpayers, the reality will be a confounding array of limitations that may render the deduction more symbolic than substantive.

The Limitations: A Narrow Pathway to Eligibility

The introduction of this provision is aimed at providing some respite amid the financial demands of owning a vehicle. Yet, the deductions are not as straightforward as they might appear. A myriad of limitations tightly gird this provision, potentially excluding a significant portion of taxpayers eager for relief.

- **Personal Use Vehicle**: To begin with, the provision caters exclusively to personal-use vehicles weighing in at 14,000 pounds or less. Any vehicle used for business, regardless of necessity or lack of corporate fleets, is unapologetically excluded. This distinction negates opportunities for small business owners or entrepreneurs who often blur the lines between personal and professional vehicle use. Furthermore, the provision applies only to new vehicles—a frustrating restriction for those who consciously choose to buy used cars, perhaps for economic or environmental reasons.

- **No Recreational Vehicles**: Although the definition of a passenger vehicle includes cars, minivans, vans, SUVs, pickup trucks, or motorcycles, recreational vehicles (RVs), fail to meet the criteria for qualified vehicles. Recreational vehicles encompass a variety of motorhomes and campervans.

- **Vehicle Loan**: The demand for the loan to be secured by the vehicle introduces another level of complication. A car must be held as collateral, and while this may not be an unusual requirement for an auto loan, it accentuates the notion of risk rather than relief to the taxpayer.

One would think family and friends would be allies in such financial undertakings, but the provision explicitly disallows loans from these sources. Similarly, lease financing is also deemed unfit for this deduction, limiting options for those who prefer or require the flexibility of leasing over buying.

- **Final Assembly:** Perhaps one of the most daunting limitations is the requirement for final assembly of the vehicle to occur within the United States. The globalization of the automobile industry is such that even American brands often have some assembly lines abroad. Consequently, this restriction might serve more as a geopolitical statement than a practical guideline for taxpayers counting on financial relief.

  Moreover, the mandated list of qualifying vehicles, anticipated from the government, is still merely a promise. Without this list, taxpayers tread uncertain ground, unsure whether their chosen vehicle will ultimately qualify for the deduction.

- **Highway Use:** Adding to the complexity is the constraint that the vehicle must be manufactured for use on public streets, roads, and highways. This means that niche markets—such as those who buy golf carts or other specialized vehicles—will find themselves excluded, with no recourse under the current legislation.

- **Income Limits:** Income levels play yet another confounding role in the eligibility for this deduction. With a ceiling set at a modified adjusted gross income (MAGI) of $100,000 for single filers and $200,000 for joint filers, the phase-out of the deduction looms large. For each $1,000 of income surpassing these thresholds, the deduction diminishes by $200. Once the MAGI reaches $149,000 for single filers or $249,000 for joint filers, the deduction is entirely moot—the provision becomes obsolete for those hovering in the upper limits of the middle class.

  For instance, consider a single filer with a MAGI of $120,000. For these additional $20,000 over the threshold, the deduction shrinks by $4,000, resulting in a paltry remaining deduction of $6,000. Under these strictures, only taxpayers effectively within the 22% tax bracket can capture any significant benefit, and even then, the reduction in liability seems less than commensurate with the provision's intent.

  Should a taxpayer fall into the more modest 12% tax bracket, the deduction offers little solace—just a $12 decrease in liability for every $100 of interest deducted. In contrast, those in the 22% bracket witness a $22 reduction per $100, underscoring the inequitable assist the provision extends across income levels.

- **Limited Availability:** This provision is temporary, only available in 2025 through 2028 after which terminates unless extended by Congress.

The Enduring Question of Benefit Versus Burden

In the end, the OBBBA provision stands as a complex and confining measure within tax legislation. Its onerous limitations highlight the incongruities in navigating tax benefits—often leaving taxpayers with more questions than answers, and with benefits that seem increasingly out of reach. As it begins its tenure from tax year 2025 through 2028, taxpayers are left to wonder whether this interest deduction is a beacon of relief or an elusive concession under the guise of benefit.

Despite the numerous limitations that encircle the OBBBA provision, there is a bright spot that merits attention: the deduction's accessibility to both those who itemize their deductions and those who opt for the standard deduction. This flexibility grants a wider net of eligibility, ensuring that taxpayers are not faced with the additional burden of reshaping their entire tax strategy to benefit from this provision. Whether a taxpayer meticulously itemizes every deductible expense or opts for the simplicity of the standard deduction, they have the opportunity to leverage this interest deduction.

Contact this office if you have questions.

Occupations Qualified for Tip Deduction Released

Article Highlights:

- Draft List of Occupations:
    - Beverage & Food Service
    - Entertainment and Events
    - Hospitality and Guest Services
    - Home Services
    - Personal Services
    - Personal Appearance and Wellness
    - Recreation and Instruction
    - Transportation and Delivery
- Eligibility Requirements
- Deduction Limitations
- Other Considerations

On September 2, 2025, the Treasury Department released a draft list of 68 occupations eligible for the new "no tax on tips" deduction. This deduction is part of the "One Big Beautiful Bill Act," signed into law on July 4, 2025, and applies to federal income taxes for the 2025—2028 tax years.

The deduction is available for a maximum of $25,000 in qualifying tips per person, per year. It is structured as a "below-the-line" deduction, meaning it is available to taxpayers who take the standard deduction, but is not used to compute adjusted gross income (AGI).

Here is the Treasury's draft list of occupations:

Beverage & Food Service

- Bartenders
- Wait staff
- Food servers, non-restaurant
- Dining room and cafeteria attendants and bartender helpers
- Chefs and cooks
- Food preparation workers
- Fast Food and Counter Workers

- Dishwashers
- Host staff, restaurant, lounge, and coffee shop
- Bakers

Entertainment and Events

- Gambling dealers
- Gambling change persons and booth cashiers
- Gambling cage workers
- Gambling and sports book writers and runners
- Dancers
- Musicians and singers
- Disc jockeys (except radio)
- Entertainers and performers
- Digital content creators
- Ushers, lobby attendants and ticket takers
- Locker room, coatroom and dressing room attendants

Hospitality and Guest Services

- Baggage porters and bellhops
- Concierges
- Hotel, motel and resort desk clerks
- Maids and housekeeping cleaners

Home Services

- Home maintenance and repair workers
- Home landscaping and groundskeeping workers
- Home electricians
- Home plumbers
- Home heating/air conditioning mechanics and installers
- Home appliance installers and repairers
- Home cleaning service workers
- Locksmiths
- Roadside assistance workers

Personal Services

- Personal care and service workers
- Private event planners
- Private event and portrait photographers
- Private event videographers
- Event officiants
- Pet caretakers
- Tutors
- Nannies and babysitters

Personal Appearance and Wellness

- Skincare specialists
- Massage therapists
- Barbers, hairdressers, hairstylists and cosmetologists
- Shampooers
- Manicurists and pedicurists
- Eyebrow threading and waxing technicians
- Makeup artists
- Exercise trainers and group fitness instructors
- Tattoo artists and piercers
- Tailors
- Shoe and leather workers and repairers

Recreation and Instruction

- Golf caddies
- Self-enrichment teachers
- Recreational and tour pilots
- Tour guides and escorts
- Travel guides
- Sports and recreation instructors

Transportation and Delivery

- Parking and valet attendants
- Taxi and rideshare drivers and chauffeurs
- Shuttle drivers
- Goods delivery people
- Personal vehicle and equipment cleaners
- Private and charter bus drivers
- Water taxi operators and charter boat workers
- Rickshaw, pedicab, and carriage drivers
- Home movers

The requirements for the OBBB tip exclusion are a set of temporary tax deductions for qualified tipped workers, available for tax years 2025 through 2028. The deduction is taken on an individual's tax return and is subject to income limitations.

Eligibility Requirements: To be eligible for the deduction, a worker must meet the following criteria:

- **Be a qualified tipped worker:** Must be an employee or independent contractor in an occupation that customarily and regularly received tips before 2025. See the draft list of qualifying occupations.

- **Have qualified tips:** The tips must be voluntarily paid by a customer. This includes tips received in cash, charged on a credit card, or from a tip-sharing arrangement. Mandatory service charges are not eligible.

- **Properly report tips:** The tips must be reported to the IRS on either a Form W-2 (for employees) or Form 1099 (for independent contractors).

- **File jointly if married:** If married, the couple must file a joint tax return to claim the deduction.

- **Provide a Social Security Number (SSN):** Anyone claiming the deduction must include their SSN on their tax return.

Deduction Limitations: The maximum deduction is limited and phases out for high-income earners:

- **Maximum deduction:** The maximum annual deduction is $25,000.

- **Income phase-out:** The deduction is gradually reduced for taxpayers with a modified adjusted gross income (MAGI) over a certain amount:

  - **Single filers:** The deduction begins to phase out for MAGI over $150,000.

  - **Married filing jointly:** The deduction begins to phase out for MAGI over $300,000.

Other Considerations:

- **Does not apply to payroll taxes:** While tips are deductible from the worker's income when figuring their federal income tax, they are still subject to Social Security and Medicare taxes or self-employment tax in the case of independent contractors.

- **Temporary provision:** The tip deduction is a temporary measure, scheduled to expire after December 31, 2028.

- **Not tax-free:** This is a deduction, not an exemption. So, the worker will still have to report all tip income, which will then be reduced by the deduction amount.

- **State tax implications:** The effect on state income taxes will depend on the worker's state's tax laws.

In conclusion, understanding which occupations qualify for tip deductions is essential for both employees and employers seeking to maximize their tax benefits. By staying informed about the specific criteria that define qualified tips and knowing how different occupations fit into this framework, individuals can ensure compliance while optimizing their tax strategies. As tax laws continue to evolve, it remains crucial for stakeholders to stay updated on legislative changes and seek professional advice as needed to navigate the complexities of tip income and deductions effectively.

Contact this office with questions and assistance.

Understanding the Estate and Gift Tax Changes Under the One Big Beautiful Bill Act

Article Highlights:

- Basics of the Estate and Gift Tax Exclusion
- Estate and Gift Tax Exclusions: Key Adjustments
- Impact on Generation-Skipping Transfers
- Benefits of the Portability Election
- Strategic Implications for Wealth Management

The One Big Beautiful Bill Act (OBBBA) recently introduced substantial changes in the realm of estate and gift tax planning. These changes present new opportunities for taxpayers. The legislation modifies critical aspects of the estate tax exclusion, making long-term planning both more urgent and more strategic for affluent taxpayers.

Basics of the Estate and Gift Tax Exclusion: The estate and gift tax exclusion is the amount that can be excluded from federal estate tax. If the value of a decedent's estate is less than the exclusion amount for the year of death ($13.99 million in 2025), no federal estate tax is owed and no estate tax return is required, but in some cases filing an estate tax return may still be prudent (see Benefits of the Portability Election below).

If the value of gifts one individual gives to another person during a year is greater than that year's annual gift tax exclusion ($19,000 for 2025), the individual making the gift must file a gift tax return (IRS Form 709), but often will owe no gift tax. This is because the gift giver can dip into their combined lifetime estate and gift tax exclusion and apply it to the excess gift amount. When the individual passes away, a reconciliation must be done to see if the combination of excess gifts and the value of the individual's estate exceeds the lifetime estate and gift tax exclusion, which varies from year to year. This is done on IRS Form 706.

Estate and Gift Tax Exclusions: Key Adjustments: The OBBBA has effectively "permanently" set the estate and gift tax exclusion at $15 million per individual starting in 2026, adjusted for inflation in the following years. This decision is a continuation of the trend initiated by the Tax Cuts and Jobs Act of 2017 (TCJA), which doubled the previous $5 million exclusion to $10 million, again indexed for inflation, but only through 2025. Prior to the OBBBA, the expectation was that this exclusion would drop significantly to about $7 million, essentially rolling back to the pre-TCJA levels, adjusted for inflation. However, with the OBBBA's intervention, a more favorable scenario for high-net-worth individuals has been preserved.

This adjustment helps taxpayers engage in more precise planning for their estates, allowing them to pass on more wealth without triggering tax obligations. It offers a level of stability and predictability that can be pivotal in both long-term estate planning and immediate asset management strategies.

Impact on Generation-Skipping Transfers: In tandem with the estate and gift tax exclusions, the Generation-Skipping Transfer (GST) tax exclusion has also been aligned. The GST tax is a federal tax levied on transfers that skip a generation, such as from grandparents directly to grandchildren, bypassing the parents. Under OBBBA, the GST exclusion mirrors the estate and gift tax exclusion, set at $15 million from 2026 and indexed thereafter. This move curbs the potential tax-free transfer across generations, ensuring that wealth passed in such a manner is adequately taxed while still allowing for strategic planning opportunities to mitigate tax exposure.

Benefits of the Portability Election: An often-overlooked strategy for married couples in estate planning involves the portability election, which can be particularly beneficial upon the death of the first spouse. This election allows the surviving spouse to utilize any unused portion of the deceased spouse's estate and gift tax exclusion. By leveraging this mechanism, couples can effectively maximize the tax exclusions available to them.

For example, if the estate of a spouse who dies in 2026 does not use their full $15 million exclusion, the remainder can transfer to the surviving spouse's exclusion, potentially doubling the couple's tax-free transfer capability. This process can significantly alleviate the financial burden on the surviving spouse and provide more flexibility and security in managing and distributing their estate as desired. It is an essential tool in a comprehensive estate planning strategy, particularly under the current tax environment shaped by the OBBBA.

To take advantage of this election, the executor of the estate of the first spouse to die must file a timely Form 706, even if there is no estate tax owed.

Strategic Implications for Wealth Management: The changes introduced by the OBBBA necessitate a fresh look at existing estate plans. Taxpayers who had previously braced themselves for a reversion to lower exclusion thresholds now have the opportunity to further leverage the increased exclusions in their planning strategies. This means reevaluating current plans to make the most of the permanent $15 million exclusion cap, aligning it with long-term financial goals and family wealth aspirations.

For estate planning professionals, the OBBBA offers both a challenge and an opportunity. The permanence of these provisions requires planners to incorporate them into dynamic and flexible estate plans that can withstand the test of inflation, economic fluctuations, and potential future legislative changes. Deploying gifts, trusts, and other tools efficiently will be critical in optimizing these tax benefits.

Conclusion: The estate and gift tax landscape, shaped by the One Big Beautiful Bill Act, presents complex but rewarding planning opportunities. With increased exclusions, aligned GST provisions, and the beneficial portability election, taxpayers and estate planners can navigate these waters effectively to ensure wealth preservation across generations. As such, now is an ideal time for affluent individuals to consult with their tax advisors and estate planners to reassess and optimize their strategies.

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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