



Newsletter

November 2025

Dear clients:

With the extended deadlines behind us, we turn our attention to preparing for the upcoming filing season. This time of year provides an excellent opportunity for a year-end review of your tax situation. We may be able to identify additional tax savings opportunities to apply before year end. If there was a significant change in your tax situation, or if you would simply like to touch base in advance of filing season, please contact our office and we will be glad to assist you.

Additionally, as a result of the ongoing government shutdown and reduced workforce, IRS is facing severe challenges. In addition to delays in processing returns, issuing refunds, and resolving notices, **the filing season is already expected to be delayed**. This further compresses the time our office and other tax professionals will have to prepare and submit your returns by the April 15th deadline. With this delay in mind, as well as the increased complexities from the One Big Beautiful Bill, it is imperative for us to receive your tax information as early in the filing season as possible. As you will find in our Engagement Letters (please look for these sent via email - unless otherwise requested - shortly after the New Year) and similar to last year, we must receive your complete business information by February 2, 2026 to file the returns by March 16, 2026, and we must receive your complete individual information by March 2, 2026 to file the returns by April 15, 2026. If we cannot receive your information by these deadlines, your returns may require an extension. Filing an extension request is common, and we are happy to do that for you.

Thank you for the continued opportunity to serve you. Please contact our office should you have questions or wish to discuss your tax situation further.

Sincerely,
Aaron Bagby
Kramer, Jensen & Bagby, LLC

Unlocking Tax Savings with Deductions Beyond Itemizing

In the complex world of tax deductions, understanding the distinctions between above-the-line deductions, below-the-line deductions, and standard and itemized deductions is crucial for effective tax planning. Each category serves a distinct purpose within the tax code, impacting how taxable income is calculated and influencing the overall tax liability of individuals.

- **Above-the-line deductions**, also known as "adjustments to income," are beneficial as they can be deducted whether a taxpayer chooses to itemize their deductions or uses the standard deduction. The above-the-line deductions are a group of deductions not included as an itemized deduction. In addition, above-the-line deductions reduce a taxpayer's gross income to produce the Adjusted Gross Income (AGI). A lowered AGI can be critical in determining your eligibility for additional tax credits and deductions, as many tax benefits are either limited or phased out based on AGI thresholds. Here is a more detailed explanation of many of the above-the-line deductions:

1. **Foreign Earned Income Exclusion:** The Foreign Earned Income Exclusion allows eligible U.S. citizens and resident aliens living and working abroad to exclude a specified amount of foreign earned income from their U.S. federal taxable income. For 2025, the exclusion limit is \$130,000 plus a housing exclusion which are taken below-the-line.
2. **Educator Expenses:** This deduction allows eligible educators, including teachers, instructors, counselors, principals, and aides, to deduct up to \$300 of unreimbursed expenses incurred for classroom supplies and professional development courses. This includes books, supplies, computer equipment, and other materials used in the classroom.
3. **Health Savings Account (HSA) Contributions:** Taxpayers who participate in a high-deductible health plan (HDHP) can contribute to an HSA, which allows for tax-free savings designated for medical expenses. Contributions can be made by the individual or their employer, and the deducted amount helps lower the taxpayer's AGI.
4. **Self-Employed Retirement Plan Contributions:** Self-employed individuals can deduct contributions made to retirement plans such as SEP IRAs, SIMPLE IRAs, and qualified plans (like 401(k)s). These contributions reduce taxable income and help self-employed taxpayers save for retirement with potential tax-deferred growth. This deduction is for the retirement plan contributions made for the benefit of the self-employed individual and shouldn't be confused with the contributions the self-employed individual makes as an employer toward a retirement plan for employees, which would be a business deduction.
5. **Self-Employed Health Insurance Premiums:** This deduction allows self-employed individuals to deduct health insurance premiums paid for themselves, their spouses, dependents, and any children under age 27, even if the child is not considered a dependent. The deduction is particularly beneficial as it provides relief from high healthcare costs while lowering taxable income.
6. **Alimony Payments:** For divorce agreements finalized before 2019, the payer can deduct alimony payments made to a former spouse. This deduction is intended to offer tax relief to the paying spouse by decreasing the taxable income. However, under the Tax Cuts and Jobs Act, this deduction is not applicable to divorces finalized after December 31, 2018.
7. **Student Loan Interest:** This deduction allows borrowers to deduct up to \$2,500 of interest paid on qualified student loans used for higher education expenses. The deduction is phased out at higher income levels but provides substantial relief by reducing taxable income for those eligible.
8. **IRA Contributions:** Taxpayers who contribute to a traditional IRA are allowed a deduction of up to \$7,000 (\$8,000 if over age 50) per year provided they have earned income of at least as much as the amount contributed. The limit is periodically adjusted for inflation. Contributions to Roth IRAs are not deductible.
9. **Military Moving Expenses:** Military moving expenses refer to the costs associated with relocating service members due to a permanent change of station (PCS). These expenses can include transportation, lodging, and shipment of personal goods. For active-duty members of the Armed Forces, the unreimbursed costs incurred during a PCS move are deductible. Beginning in 2026 members of the Intelligence Community will also qualify for this deduction.
10. **Early Withdrawal Penalty:** Taxpayers who incur penalties for early withdrawal of savings, commonly from certificates of deposit (CDs) or similar savings instruments, can deduct these penalties. The deduction offsets the income generated from the withdrawal, reducing overall taxable income.
11. **Contributions to Archer MSAs:** A Medical Savings Account (MSA) is a tax-advantaged account designed to help individuals save for future medical expenses. These accounts, which were created almost 30 years ago, were intended for self-employed individuals and employees of small businesses. They have generally been supplanted by HSAs, which have less restrictive contribution and broader eligibility rules.
12. **Jury Duty Pay Given to Employer:** Jury duty pay is taxable, but when the employer continues an employee's compensation when on jury duty, the employee generally will be required to turn over their jury duty pay to the employer. Without this deduction, the employee would be taxed twice on the jury duty compensation.

- **Below-the-line deduction** is a term that has been slowly transformed by Congress. It used to predominantly refer to either the standard deduction or the itemized deduction. However, the term has taken on a new meaning as Congress has added deductions

that reduce taxable income but not adjusted gross income and are available in addition to whether the taxpayer itemizes deductions or takes the standard deduction. The One Big Beautiful Bill act (OBBBA) has more doubled the number of deductions in this category. Here is a rundown of these deductions.

1. **199A pass-through deduction:** The Section 199A pass-through deduction for 2025 offers a tax benefit to non-C corporation business owners. It allows a deduction generally equal to 20% of qualified business income (QBI) from various pass-through business activities, such as sole proprietorships, partnerships, S-corporations, rentals, farms, REITs, and publicly traded partnerships. Recent updates under the OBBBA 2025 legislation make this deduction permanent starting in 2026 and introduce a minimum deduction of \$400 for taxpayers with at least \$1,000 of QBI from active trades or businesses in which they materially participate.
2. **Disaster related deductions:** Disaster-related deductions generally refer to casualty loss deductions that taxpayers can claim for damages or losses caused by federally declared disasters. These deductions are designed to help individuals and businesses alleviate financial burdens resulting from events like hurricanes, earthquakes, or floods. Disaster-related losses from federally declared disasters can be claimed as qualified disaster losses, which offer unique tax advantages. These losses can be deducted in addition to your standard or itemized deductions, without having to itemize other deductions on your tax return.
3. **Senior Deduction:** The OBBBA, has added a temporary senior deduction for years **2025 through 2028**. This deduction is \$6,000 for eligible single filers aged 65 and over and \$12,000 for married couples filing jointly where both spouses are 65 or older. The deduction phases when AGI reaches \$150,000 for married joint filers or \$75,000 for others. It does not take the place of the additional standard deduction allowed to those age 65 and older.
4. **Non-itemizer charitable deduction:** The non-itemizer charitable deduction created by the One Big Beautiful Bill (OBBB) is available for **tax years beginning in 2026**. This deduction is permitted for substantiated cash only donations with a maximum deduction of \$1,000 for single filers and \$2,000 for married couples filing jointly. Donations to donor-advised funds and non-operating private foundations do not qualify for this deduction.
5. **Car Loan Interest Deduction:** The One Big Beautiful Bill Act (OBBBA) added a car loan interest deduction temporarily available for tax years **2025 through 2028**. The vehicle must be new and for personal use. It must have a final assembly in the United States. The loan must be secured by the vehicle and originated after December 31, 2024. The maximum annual deduction is \$10,000. The deduction begins to phase out for taxpayers with a Modified Adjusted Gross Income (MAGI) over \$100,000 for single filers and \$200,000 for joint filers.
6. **Tips Deduction:** The OBBBA tips deduction is temporary and available for the tax years **2025 through 2028**. The deductible tips are limited to \$25,000 annually per tax return. To be eligible, tips must have been received in an occupation that customarily and regularly received tips before December 31, 2024. The IRS is scheduled to publish a list of qualifying occupations. The deduction reduces federal income tax, but tips are still subject to Social Security and Medicare taxes (FICA). In addition, the deduction is reduced for higher-income earners, starting at a Modified Adjusted Gross Income (MAGI) of \$150,000 for single filers and \$300,000 for those married filing jointly.
7. **Overtime Pay Deduction:** Another provision in the OBBBA is an overtime pay deduction available for tax years **2025 through 2028**. The maximum annual deduction is \$12,500 for single filers and \$25,000 for married couples filing jointly. Only the premium portion of overtime pay is deductible. For "time-and-a-half" pay, this is the "half" that exceeds your regular rate. To be eligible, the taxpayer must be a W-2 employee, and the overtime must be required by the Fair Labor Standards Act (FLSA). The deduction begins to phase out for taxpayers with a modified AGI over \$150,000 for single filers or \$300,000 for joint filers.

In conclusion, while itemizing deductions often garners much attention, it is essential to recognize that numerous deductions remain available even if you don't itemize. These can significantly impact your taxable income, offering opportunities for tax savings across various situations. Whether it's deductions for student loan interest, educator expenses, or certain retirement plan contributions, being informed about these avenues can make a substantial difference come tax season.

For taxpayers, the choice between taking the standard deduction or itemizing deductions is pivotal. The standard deduction for 2025, which was enhanced by the OBBBA, is set at \$15,750 for single filers, \$31,500 for married couples filing jointly, and \$23,625 for heads of household. Meanwhile, itemized deductions cover areas such as medical expenses, property taxes, mortgage interest, and charitable donations. Choosing the optimal path—whether sticking with the simplicity of the standard deduction or delving into the details with itemized deductions—depends on your specific financial picture. Whichever route you take, maximizing your allowable deductions ensures that you keep more of what you earn.

Contact this office with questions.

IRS Shifts to Paperless Refunds: What This Might Mean for You

Article Highlights:

- Executive Order
- The Impetus Behind the Transition
- Challenges Facing Unbanked Taxpayers
- Proposed Solutions and Alternatives

In a move set to redefine the refund process, the Internal Revenue Service (IRS), in collaboration with the U.S. Department of Treasury, has announced the gradual phasing out of paper tax refund checks starting September 30, 2025, as mandated by Executive Order 14247. This transition to electronic refunds marks a significant shift aimed at modernizing the system to enhance efficiency and security. However, it brings with it a complex set of challenges, especially for individuals who are unbanked or underbanked. Here, we delve into what this means for taxpayers and explore the options available for those without access to traditional banking services.

The Impetus Behind the Transition

The transition to electronic refunds is based on several compelling advantages. Compared to paper checks, electronic payments are over 16 times less likely to be lost, stolen, or delayed, offering a more secure method for taxpayers to receive their refunds. Faster IRS processing times also mean that electronic refunds can be issued in less than 21 days if the returns are filed electronically and there are no issues, as opposed to the several weeks it can take for non-electronic payments.

Additionally, the cost benefits are significant. Electronic payments reduce the costs associated with printing and mailing checks, thus allowing the Treasury to allocate resources more efficiently. During the 2025 tax season, a substantial 93% of federal tax refunds were already processed through direct deposit, indicating broad acceptance and feasibility of going paperless for the majority. This was accomplished because these taxpayers included their banking information on the tax returns they filed.

Challenges Facing Unbanked Taxpayers

Despite these benefits, the transition presents distinct challenges for the approximately 7% of recipients who still depend on paper checks. For many, especially those without current banking services, this shift necessitates urgent attention to viable alternatives such as prepaid debit cards and digital wallets.

The American Bar Association (ABA) has voiced concerns regarding the rapid timeline of this transition, cautioning that un- and underbanked individuals may face unforeseen difficulties. The ABA has recommended that steps be taken to expand access to basic banking services and to educate the public on the potential risks associated with prepaid cards, which can sometimes incur higher fees and offer less consumer protection.

Moreover, the Tax Law Center has highlighted that prepaid cards, while a solution, might not be the most efficient option due to the nature of annual tax refunds in contrast to monthly benefits traditionally paid via prepaid methods. They stressed the need for careful implementation to avoid costs potentially outweighing the benefits.

Proposed Solutions and Alternatives

To address these challenges, several recommendations and initiatives can help bridge the gap for those without a banking presence:

1. **Prepaid Debit Cards:** These cards offer an immediate solution that doesn't require a traditional bank account. However, taxpayers should be aware of any associated fees and the process for reissuing cards for annual tax refunds.
2. **Digital Wallets:** Services such as PayPal and mobile banking apps are viable options for receiving electronic payments. These platforms can be accessed with minimal initial setup, offering an alternative to bank accounts.
3. **BankOn Initiative:** This program aims to provide low- or no-cost banking services to underserved communities. Taxpayers are encouraged to explore accounts certified by the BankOn initiative which feature low fees and no minimum balance requirements.
4. **FDIC's GetBanked Resources:** Taxpayers can visit the FDIC's GetBanked website for guidance on opening a simple bank account. Many institutions offer accounts with nominal fees and requirements, which can be an excellent start for those new to banking.
5. **International Considerations:** For taxpayers abroad, the current policy restricts direct deposits into foreign bank accounts. While advocacy continues for changes to allow international ACH transfers, relying on existing accounts within the U.S. remains a suggested pathway.

The IRS's move to paperless refunds is both a forward-looking initiative and a logistical challenge, particularly for unbanked populations. The transition's success hinges on making sure all taxpayers are adequately informed and have access to alternative financial services. By exploring and promoting viable solutions, taxpayers can mitigate potential disruptions in their refund process and embrace the efficiency of electronic payments.

This change will not affect taxpayer's already receiving paperless refunds. Contact this office with questions.

Tax Advantages of Qualified Charitable Distributions (QCDs)

Article Highlights:

- Understanding QCDs
- How QCDs Work
- Tax Benefits of QCDs
- Not Just for High-Income Taxpayers
- The IRA Contribution Trap
- Strategic Considerations

Qualified Charitable Distributions (QCDs) are a highly effective tool in the tax planning toolkit, particularly for retirees who must take Required Minimum Distributions (RMDs) from their Individual Retirement Accounts (IRAs). By directing a portion or all of an RMD directly to a charity, taxpayers can potentially reduce their taxable income significantly, yielding multiple tax advantages.

Understanding QCDs

A QCD is a transfer of funds from an individual's IRA, payable directly to a qualified charity. These distributions can be counted toward satisfying your RMD for the year, up to an inflation adjusted maximum amount. QCDs were first introduced as a temporary provision in 2006, but since then have become a permanent feature of the tax code.

How QCDs Work

For a distribution to be considered a QCD, it must meet specific criteria:

- **Eligible Accounts:** The funds must come from a traditional IRA, and the account holder must be at least 70½ years old at the time of the donation. Distributions cannot be from SEP or SIMPLE IRAs. The QCD can come from a Roth IRA only if it is a non-taxable distribution.
- **Direct Transfer Requirement:** The funds must be transferred directly from the IRA custodian to the qualified charity.
- **Qualified Charitable Organization:** The recipient must be a 501(c)(3) organization, and the donor is responsible for obtaining an acknowledgment letter from the organization under the same documentation rules as if claiming an itemized deduction for a charitable donation. Generally, private foundations, donor-advised funds, or supporting organizations do not qualify. However, the SECURE 2.0 Act allows a one-time \$50,000 distribution to certain charitable structures, including charitable gift annuities, charitable remainder unitrusts, and charitable remainder annuity trusts. The \$50,000 maximum lifetime distribution amount is adjusted for inflation, and for 2025 is \$54,000.

Tax Benefits of QCDs

1. **Income Reduction:** Since a QCD is not taxable, it does not increase the Adjusted Gross Income (AGI). This characteristic can be beneficial in several ways beyond just avoiding income taxes on the RMD.
2. **Enhancing Income-Limited Tax Benefits:** Lower AGI means potentially enhanced eligibility for other tax benefits and credits that are income-limited. Here are a few examples:
 - **Social Security Taxation:** By not increasing your AGI, QCDs can help maintain lower-taxed tiers of Social Security benefits.
 - **Medicare Premiums:** Medicare Part B and Part D premiums are determined by AGI. By keeping this figure low through QCDs, you can avoid higher Medicare premiums.
 - **Itemized Deductions Threshold:** A lower AGI level can help with thresholds that apply to itemized deductions, thereby increasing their value.
3. **Same Benefit as Charitable Contributions, Plus More:** Normally, when a taxpayer makes a charitable contribution and itemizes deductions, that amount reduces taxable income. However, a QCD provides the same benefit of a charitable deduction without having to itemize, while also lowering the AGI. This is an advantage for taxpayers who take the standard deduction.

Not Just for High-Income Taxpayers

There's a common misconception that QCDs primarily benefit high-income taxpayers because of the significant annual limit, which is \$108,000 in 2025 due to inflation adjustments from the original \$100,000 maximum. However, QCDs can be utilized by any eligible taxpayer meeting the age requirement to lower their taxable income and improve their tax situation. Even small donations can leverage the benefits associated with reduced AGI targets. For a married couple, the annual limit applies to each spouse who has an IRA.

The IRA Contribution Trap

While QCDs can be incredibly beneficial, it's essential to be aware of the so-called "IRA

Contribution Trap." This issue arises because the Internal Revenue Service (IRS) treats any deductible IRA contributions made after age 70½ as a reduction in the allowable QCD amount. For instance:

- If you contribute \$6,000 to your IRA after age 70½, and simultaneously, you intend to make a \$10,000 QCD, only \$4,000 of that QCD will qualify for the exclusion. This rule reduces the intended tax benefit of the QCD.

Understanding this catch is crucial for retirees who are still working and might continue contributing to their IRAs while also planning to make QCDs.

Strategic Considerations

Taxpayers should consider the timing and structure of QCDs, especially in years where they may face other significant income events. Planning your QCDs in conjunction with other taxable events can help maintain lower AGI levels, thus optimizing the overall financial benefits.

For example, if a taxpayer anticipates a substantial capital gain or receives a large payment from another source, a well-timed QCD can offset the income increase, helping to manage the AGI.

Conclusion

Qualified Charitable Distributions are not merely a tool for philanthropic endeavors; they are a powerful strategy for managing taxable income and maintaining eligibility for other tax-related benefits. By understanding how QCDs work, taxpayers can strategically plan their charitable giving while maximizing their tax advantages.

In summary, QCDs offer multi-faceted benefits, including income reduction, enhancement of other tax benefits, and a simplified way to execute charitable giving. Whether you are making small donations or using the full annual limit, incorporating QCDs into your tax strategy can have far-reaching results that benefit your finances and the organizations you choose to support.

If you are retired and planning a significant contribution to your place of worship or another charitable organization, such as a donation to your faith community's building fund, it would be prudent to explore the option of a Qualified Charitable Distribution (QCD). Please contact our office for personalized assistance in evaluating how a QCD might benefit your specific situation.

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.

Aaron Bagby
Kramer, Jensen & Bagby, LLC

The contents of this newsletter are intended to convey general information only and not to provide accounting or tax advice or opinions. The content should not be construed as, and should not be relied upon for, accounting or tax advice in any particular circumstance or fact situation. We recommend you contact us to discuss the application to any specific situation.

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