



## Tax Season Is Coming, Here's What to Know

### Article Highlights:

- Time to Gather Your Information
- New for 2025
- Choosing Your Alternatives
- Tips for Pulling Your Information Together

Tax time is just around the corner, and if you are like most taxpayers, you are probably facing the ominous chore of compiling records in preparation for your tax appointment—whether in person, by videoconference or telephone. The difficulty of this task depends upon how well you maintained your tax records throughout the year. No matter how good your record keeping was, being fully prepared for your tax return preparation will give us more time to:

- Consider every possible legal deduction,
- Evaluate which income reporting methods and deductions are best suited to your situation,
- Explore current law changes affecting your tax status, and
- Talk about tax-planning alternatives that could reduce your future tax liability.

**New for 2025** — There are several changes this year, partially due to the One Big Beautiful Bill Act (OBBA), including these predominate ones:

- **No Tax on Tips:** A deduction up to \$25,000 is allowed for qualified cash tips in customary tip-receiving occupations. The deduction phases out when AGI is over \$150,000 for singles and \$300,000 for joint filers, reducing by \$100 for every \$1,000 over. The deduction applies per return and is available to both itemizers and standard deduction filers. Employers will include qualifying tips on the employee's W-2, or for 2025 only, will provide a separate statement reporting the tips.
- **No Tax on Qualified Overtime:** A deduction of up to \$12,500 (\$25,000 for married taxpayers filing jointly) for overtime pay exceeding the regular rate. The deduction Phases out for MAGI over \$150,000 (singles) and \$300,000 (joint filers), reducing by \$100 for every \$1,000 over. Available to both itemizers and standard deduction filers.

Example:

Overtime Hourly Rate: \$30.00

Regular Hourly Rate: <\$20.00>

Deductible Amount: \$10.00 per overtime hour worked

- **Vehicle Loan Interest Deduction:** Individuals may deduct up to \$10,000 in interest on loans taken out after 2024 and secured by a new personal-use passenger vehicle, assembled in the U.S. and weighing under 14,000 pounds. Excludes family loans and non-personal vehicles like campers. The deduction phases out for incomes between \$100,000-\$150,000 (single) and \$200,000-\$250,000 (joint filers). Available to both itemizers and standard deduction filers. The lenders will report the interest on a new Form 1098-VLI. However, for 2025 only, IRS is allowing lenders to issue their own statements with specified information in lieu of the official form. If you paid vehicle loan interest, be on the lookout for this new form or a substitute statement.

- **SALT Deduction Limit:** The itemized deduction for state and local taxes (SALT) has been increased to \$40,000 up from the prior \$10,000 limit. However, the SALT limit for higher income taxpayers' phases down starting at \$500,000 MAGI, reaching a \$10,000 floor at \$600,000. It never drops below \$10,000.
- **Super Retirement Catch Up:** Beginning in 2025 catch-up contribution limits have significantly increased for individuals aged 60 through 63. They can now contribute the greater of \$10,000 or 50% more than the standard catch-up amount to qualified plans, such as SIMPLE plans, 401(k)s, 403(b) annuities, and 457(b) government plans, but not IRAs. For 2025 the enhanced catch-up for this age group is \$11,250 except for SIMPLE plans which is \$5,250.
- **Child Tax Credit:** OBBBA increased the credit amount. In 2025 through 2028 the credit is \$2,200 (\$1,700 refundable) for dependents under 17. Phases out at \$400,000 MAGI for joint filers, \$200,000 for others, decreasing by \$50 per \$1,000 above these limits. A work-eligible SSN is required for the child and one filer.
- **Adoption Credit:** OBBBA added a refundable amount. For 2025 the credit is \$17,280 with \$5,000 refundable. Those inflation adjusted amounts are \$17,670 and for \$5,120 for 2026. Phases out between \$259,190 and \$299,190 for 2025 and in 2026 between \$265,080 and \$305,080 for all filing statuses. Any excess can be carried forward 5 years.
- **Section 179 Expensing:** Allows businesses to immediately expense the cost of qualifying assets such as machinery, equipment, and certain vehicles, although SUVs are limited to a specific deduction cap (\$31,300 for 2025). Sec 179 expensing benefits many small and medium-sized business enterprises, providing upfront tax savings and encourages investment. OBBBA substantially increased the limits for Sec 179 expensing. For 2025 the limit was increased to \$2.5 million. However, the deduction phases out dollar-for-dollar when purchases for the year exceed \$4 Million in 2025. A drawback to the Section 179 expensing method is that if the business' use of the asset drops to 50% or less, some or all the amount deducted may need to be recaptured.
- **Bonus Depreciation:** 100% bonus depreciation was made permanent by OBBBA and after January 19, 2025, allows businesses to immediately write off 100% of the cost of qualifying assets in the year they are placed in service. This applies to new and used tangible property with a recovery period of 20 years or less, such as machinery, equipment, and certain improvements. This provision is designed to incentivize business investments by accelerating tax deductions, providing businesses immediate financial benefits and improved cash flow. For qualifying property placed in service between January 1, 2025, and January 19, 2025, the bonus depreciation rate was 40%.
- **Business Research or Experimental Expenditures:** Effective beginning in 2025, domestic expenditures are immediately deductible. Expenses incurred outside the U.S. continue to be amortized over 15-years.

**Choosing Your Best Alternatives** — The tax law allows a variety of methods of handling income and deductions on your return. The choices you make when preparing your return often affect not only the current year but also future returns. Related topics include:

- **Sales of Property** — If you sold property for which you're receiving payments on a sales contract over a period of years, you can sometimes choose between reporting the whole gain in the year of the sale or over a period of time as you receive payments from the buyer.
- **Depreciation** — You can deduct the cost of your investments in certain business properties. You can either depreciate the cost over a number of years or, in certain cases, deduct them all in one year.

**Where to Begin** — Start preparing for your tax return in January, whether you are going have a face-to-face appointment, meet by videoconference or mail in your information and then have a follow-up telephone discussion. Right after the New Year, set up a safe storage location, such as a file drawer, cupboard or safe. As you receive pertinent records, file them right away, before you forget or lose them. Make this a habit, and you'll find your job a lot easier on your appointment date or when sending in your material. If you will be receiving source documents electronically, you'll need to print out a copy of the forms or statements, unless advised otherwise by this office. Other general suggestions include:

- Segregate your records according to income and expense categories. File medical expense receipts in one envelope or folder, mortgage interest payment records in another, charitable donations in a third, etc. If you receive an organizer or questionnaire to complete before your appointment, fill out every section that applies to you. (Important: Read all explanations and follow the instructions carefully. By design, organizers remind you of transactions you may otherwise miss.)

- Call attention to any foreign bank account, foreign financial account or foreign trust in which you have an ownership interest, signature authority or controlling stake. We also need to know about foreign inheritances and ownership of foreign assets. In short, bring any foreign financial dealings to our attention so we know if you will have any special reporting requirements. The penalties for not making and submitting required reports can be severe.
- Beware! The IRS has kept cryptocurrency on its radar and is ramping up enforcement programs. Cryptocurrency (virtual currency) and other digital assets are treated as property, and every time it is sold or used, the gain or loss from the transaction must be computed and reported in the same manner as a stock transaction. This year brokers are required to report digital transactions on new Form 1099-DA.
- If you acquired your health insurance through a government marketplace, you would receive Form 1095-A, issued by the marketplace, which will include information needed to complete your return and determine the amount of your premium tax credit. Include the 1095-A with the other material you bring to your appointment or mail in. If your insurance coverage was through an employer and the employer issued a Form 1095-B, Form 1095-C or substitute form detailing your coverage, include that as well.
- Keep your annual income statements separate from your other documents (e.g., W-2s from employers; 1099s from banks, stockbrokers, etc.; and K-1s, including instructions and attachments, from partnerships and trusts). Be sure to take these documents to your appointment or provide them with the other items you are sending in!
- Write down your questions as you assemble the material, so you don't forget to ask them at the appointment or include them with the documents being mailed in. Review last year's return. Compare your income on that return to your income for the current year. A dividend from ABC stock on your prior year's return may remind you that you sold ABC this year and need to report the sale or that you haven't yet received the current year's 1099-DIV form.
- Make sure you have Social Security numbers for all of your dependents. The IRS checks these carefully and can deny deductions and credits for returns filed without them.
- Compare deductions from last year with your records for this year. Did you forget anything?
- Collect any other documents and financial papers that you're puzzled about. Prepare to bring these to your appointment or include them with the rest of your tax material that you are mailing in so you can ask about them.

**Accuracy in Details** — Make sure you review personal data to ensure the greatest accuracy possible in all details on your return. Check names, addresses, Social Security numbers and occupations on last year's return. Note any changes for this year. Although your telephone number and e-mail address aren't required on your return, they are always helpful should questions occur during return preparation.

**Marital Status Change** — If your marital status changed during the year, you lived apart from your spouse or your spouse died during the year, list the dates and details. Bring copies of prenuptial, legal separation, divorce or property settlement agreements, if any, to your appointment or include copies when sending your material to this office. If your spouse passed away during the year, you should have a copy of their trust agreement or will available for review.

**Dependents** — If you have qualifying dependents, you will need to provide the following for each (if you previously provided us with items 1 through 3, you will not need to supply them again):

1. First and last name
2. Social Security number
3. Birth date
4. Number of months living in your home
5. Income amounts (both taxable and nontaxable). If your dependent is a child over age 18, note how long the child was a full-time student during the year.

For anyone other than your child to qualify as your dependent, they must pass five strict dependency tests. If you think one or more other individuals qualify as your dependents (but

you aren't sure), tally the amounts you provided toward their support vs. the amounts they provided. This will simplify the final decision.

**Some Transactions Deserve Special Treatment** — Certain transactions require special treatment on your tax return. It's a good idea to invest a little extra preparation effort if you have had the following types of transactions:

- **Sales of Stock or Other Property:** All sales of stocks, bonds, securities, real estate and any other property need to be reported on your return, even if you had no profit or loss. List each sale and have purchase and sale documents available for each transaction.  
  
The purchase date, sale date, cost and selling price must all be noted on your return. Make sure this information is contained in the documents you bring to your appointment.
- **Gifted or Inherited Property:** If you sell property that was given to you, you need to determine when and for how much the original owner purchased it. If you sell property you inherited, you need to know the original owner's death date and the property's value at that time. You may be able to find this on estate tax returns or in probate documents; otherwise, ask the executor.
- **Reinvested Dividends:** You may have sold stock or a mutual fund for which you participated in a dividend reinvestment program. If so, you will need to have records of each stock purchase made with the reinvested dividends.
- **Sale of Home:** The tax law provides special breaks for home sale gains, and you may be able to exclude up to \$500,000 of the gain from your primary home if you file a married joint return and meet certain ownership, occupancy and holding period requirements. The maximum exclusion is \$250,000 for others. Since the cost of improvements made on your home can also be used to reduce gains, it is good practice to keep a record of them. The exclusion of gains applies only to a primary residence, so keeping a record of improvements to other property, such as your second home, is important. Be sure to provide us with a copy of the sale documents (usually the final closing escrow statement).
- **Purchase of a Home:** We'll need to see a copy of the final closing escrow statement if you purchased a home in 2025.
- **Vehicle Purchase:** If you purchased a new plug-in electric car (or cars) in 2025 before September 30, 2025, you may qualify for a special credit. Please bring the purchase statement to the appointment with you or include a copy if you are mailing in your documents.
- **Home Energy—Related Expenditures:** If you installed a solar, geothermal or wind power-generation system in your home or second home, you'll need to provide the details of the purchase and manufacturer's credit qualification certification. You may qualify for a substantial energy-related tax credit.
- **Energy-Efficient Home Modifications:** If you made qualifying energy-saving improvements to your home, you may qualify for a tax credit equal to 30% of the cost (capped to certain amounts by type of modification) subject to an overall limit of up to \$1,200. The credit-qualifying improvements include energy-efficient air conditioning, heaters, storm windows and doors, certain energy-efficient roofing, qualifying windows and skylights. There is an additional credit of up to \$150 for having an energy audit during the year.
- **Identity Theft:** Identity theft is rampant and can impact your tax filing. If you have reason to believe that your identity has been stolen, please contact this firm as soon as possible. The IRS provides special procedures for filing if you have had your identity stolen.
- **Car Expenses for Business:** If you used one or more automobiles for business, list the expenses of each business vehicle separately. When claiming vehicle-related business expenses, the government requires your total mileage, business miles, and commuting miles for each business vehicle to be reported on your return, so be prepared to have those numbers available.

Job-related vehicle expenses are not deductible by employees for federal and most states on their federal returns. However, some states, including California, still allow them. So, if you have unreimbursed employee business expenses, continue to provide the information noted above in case the deduction is allowed for your state taxes. If you were reimbursed for mileage through an employer, know the reimbursement amount and whether it was included in your W-2.

- **Charitable Donations:** You must substantiate cash contributions (regardless of amount) with a bank record or written communication from the charity showing the name of the charitable organization, date and amount.

Unreceipted cash donations put into a "Christmas kettle," church collection plate, etc., are not deductible. For clothing and household contributions, donated items must generally be in good or better condition, and items such as undergarments and socks are not deductible. You must keep a record of each item contributed that indicates the name and address of the charity, the date and location of the contribution, and a reasonable description of the property. Contributions valued under \$250 and dropped off at an unattended location do not require a receipt. For contributions above \$500, the record must also include when and how the property was acquired and your cost basis in the property. For contributions above \$5,000 and other types of contributions, please call this office for additional requirements.

If you did something out of the ordinary this year that could be related to your tax return, please contact us in advance about what me documentation or additional information may be needed. If you have questions about assembling your tax data, please give this office a call.

## Navigating 2025's Game-Changing Tax Reforms for Individuals and Businesses

### Article Highlights:

- Senior Deduction
- No Tax on Tips
- No Tax on Qualified Overtime
- Vehicle Loan Interest Deduction
- Adoption Credit
- Child Tax Credit
- Environmental Tax Credits
- SALT Deduction Limit
- Super Retirement Plan Catch Up Contributions
- Third Party Network Transaction Reporting (1099-K)
- Sec 529 Plans Qualified Funds Usage
- Qualified Small Business Stock (QSBS)
- Business Research or Experimental Expenditures
- Business Interest Deduction
- Minimum Qualified Business Income (QBI) Deduction
- Qualified Production Property
- Section 179 Expensing
- Bonus Depreciation

With tax season upon us, taxpayers across the nation are trying to grasp the many tax changes for 2025. Central to these transformations is the One Big Beautiful Bill Act (OBBBA), a comprehensive tax reform. This pivotal legislation introduces a range of changes that will directly impact virtually everyone's tax return—whether a working individual, a family, or a small business owner. From adjustments in child tax credits to new guidelines on deductions, the OBBBA aims to make tax preparation more beneficial for everyday Americans. In this article, we will explore the key provisions of the OBBBA and other crucial updates, helping to understand how to navigate these changes effectively and ensure taxpayers are well-prepared for tax season. Whether aiming to maximize deductions or simply file accurately and on time, staying informed will be the greatest asset in working with tax preparers or accountants this upcoming tax season.

Before getting into the many changes affecting 2025, an understanding of Adjusted Gross Income (AGI) is needed as it has a significant impact on many of the new tax provisions for 2025. AGI is a foundational figure used in the U.S. tax system, representing a taxpayer's total income for the year after accounting for specific deductions, such as contributions to retirement accounts or student loan interest. It serves as the baseline for determining taxable income and eligibility for various tax credits and deductions. Modified Adjusted Gross Income (MAGI), on the other hand, builds upon the AGI by adding back certain deductions and exclusions, such as foreign income, tax-exempt interest, or educational expenses, depending on the particular tax provision. MAGI is often used to assess eligibility for income-limited

benefits or credits, making it slightly broader than AGI. When a tax provision phases out, it means that the benefits gradually decrease as your income surpasses a certain threshold, ultimately disappearing entirely once a higher income level is reached. This approach ensures that tax benefits are targeted towards individuals or families below certain income levels.

The following is a list of significant changes beginning in 2025, with some being permanent and other only temporary for a specific number of years.

**Senior Deduction:** From 2025 through 2028, seniors aged 65 or older can each claim a \$6,000 deduction. It phases out for unmarried individuals with a MAGI over \$75,000 and for married couples filing jointly over \$150,000, reducing by \$100 for each \$1,000 exceeding these thresholds. Both itemizers and standard deduction filers are eligible.

**No Tax on Tips:** From 2025 through 2028, a deduction up to \$25,000 per year is allowed for qualified cash tips in customary tip-receiving occupations, excluding specified service trades. The IRS has provided a list of qualifying occupations in IR-2025-92. The deduction phases out when AGI is over \$150,000 for singles and \$300,000 for joint filers, reducing by \$100 for every \$1,000 over. The deduction applies per return and is available to both itemizers and standard deduction filers. Employers will include qualifying tips on the employee's W-2, but since 2025 is a transition year, the employer may provide a separate statement that reports the tips.

**No Tax on Qualified Overtime:** From 2025 through 2028, allows a deduction of up to \$12,500 (\$25,000 for MFJ) for overtime pay exceeding the individual's regular pay rate. Phases out for MAGI over \$150,000 (singles) and \$300,000 (joint), reducing by \$100 for every \$1,000 over. Available to both itemizers and standard deduction filers.

Example:

Overtime Hourly Rate: \$30.00

Regular Hourly Rate: <u>\$20.00</u>

Deductible Amount: \$10.00 per overtime hour

For the 2025 tax year, employers can use a reasonable method to estimate the deductible amount of overtime, as the IRS has not yet finalized its forms and guidance. For the 2026 tax year, the IRS is expected to require reporting qualified overtime with the W-2

**Vehicle Loan Interest Deduction:** From 2025 through 2028, individuals may deduct up to \$10,000 per year in interest on loans secured by a new personal-use passenger vehicle, assembled in the U.S. and weighing under 14,000 pounds. Excludes family loans and non-personal vehicles like campers. Phases out for incomes between \$100,000-\$150,000 (single) and \$200,000-\$250,000 (MFJ). Available to both itemizers and standard deduction filers.

**Adoption Credit:** OBBBA added a refundable amount. For 2025 the credit is \$17,280 with a new \$5,000 refundable amount. Those inflation adjusted amounts are \$17,670 and for \$5,120 for 2026. Phases out between \$259,190 and \$299,190 for 2025 and in 2026 between \$265,080 and \$305,080 for all filing statuses. Any excess can be carried forward 5 years.

**Child Tax Credit:** OBBBS increased the credit amount. In 2025 through 2028 the credit is \$2,200 (\$1,700 refundable) for dependents under 17. Phases out at \$400,000 MAGI for joint filers, \$200,000 for others, decreasing by \$50 per \$1,000 above these limits. A work-eligible SSN is required for the child and one filer.

**Environmental Tax Credits:** OBBBA terminated most of the environmental credits early. Electric vehicle credits ended after September 30, 2025. Residential clean energy credits, including solar, and home energy efficient improvement credits are no longer available after December 31, 2025.

**SALT Deduction Limit:** For 2025 OBBBA increased the itemized deduction limit for state and local taxes (SALT) to \$40,000, up from the prior \$10,000 limit. However, the SALT limit for higher income taxpayers' phases down starting at \$500,000 MAGI, reaching a \$10,000 floor at \$600,000. It never drops below \$10,000. For 2026 the deductible limit increases to \$40,400 and the phase down range goes from \$505,000 to \$606,333. The deduction limits continue to increase through 2029 and reverts to \$10,000 in 2030 and subsequent years.

**Super Retirement Plan Catch Up Contributions:** Beginning in 2025 catch-up contribution limits have significantly increased for individuals aged 60 through 63, who can now contribute the greater of \$10,000 or 50% more than the standard catch-up amount to qualified plans, such as SIMPLE plans, 401(k)s, 403(b) annuities, and 457(b) government plans, but not IRAs. For 2025 the enhanced catch-up is \$11,250 except for SIMPLE plans which is \$5,250. The enhanced catch-up is inflation adjusted beginning in 2026.

**Third Party Network Transaction Reporting (1099-K):** OBBBA retroactively repeals the American Rescue Plan Act's lower reporting threshold for Form 1099-K. It restores the threshold to the original \$20,000 in gross payments and 200 transactions, effective for tax years beginning in 2022. This change nullifies the lower, phased-in thresholds for 2024 and 2025.

**Sec 529 Plans Qualified Funds Usage:** Effective for distributions after July 4, 2025, OBBBA expands the use of Section 529 plans, allowing funds to cover expenses associated with elementary and secondary school and postsecondary credentialing programs. This includes costs related to tuition, fees, books, and other educational expenses for both school levels, as well as expenses for obtaining professional certificates and licenses at the postsecondary level. By broadening the scope of qualified expenses, the OBBBA enhances the flexibility and utility of 529 plans, making them a more versatile tool for families planning educational investments across various stages of learning.

**Qualified Small Business Stock (QSBS):** C Corporation shareholders can exclude gains from the sale of QSBS, and for QSBS acquired after July 4, 2025, the exclusion rates are 50% after three years, 75% after four years, and 100% after five years of holding the stock. The exclusion cap is raised to \$15 million, and the corporation's asset limit is increased to \$75 million, both of which will be adjusted for inflation after 2026. More restrictive exclusions apply to QSBS acquired before July 5, 2025, the most recent being for the period September 28, 2010, through July 4, 2025, providing 100% exclusion for stock held for more than 5 years.

**Business Research or Experimental Expenditures:** Effective beginning in 2025, domestic expenditures are immediately deductible. Expenses incurred outside the U.S. continue to be amortized over 15-years.

**Business Interest Deduction:** In the past, the business interest deduction was generally limited to 30% of a taxpayer's earnings before interest and taxes (EBIT) and any "floor plan financing interest" for the year. Effective for tax years after 2024 the limit is determined using taxpayer's earnings before interest, taxes, depreciation, and amortization (EBITDA), which allows many businesses to deduct a higher amount of interest.

However, the OBBBA also implements additional, less favorable changes to the business interest deduction for tax years beginning after December 31, 2025. These changes include:

- Excluding foreign income items from the Adjusted Taxable Income (ATI) calculation, which may reduce the deductible interest amount for multinational companies.
- Largely eliminating the effectiveness of electing to capitalize business interest to avoid the Section 163(j) limitation.

Small businesses are exempt from this limitation in 2025 if their average gross receipts over the past three years do not exceed \$31 million. The amount is inflation adjusted annually and increases to \$32 million for 2026.

**Minimum Qualified Business Income (QBI) Deduction:** Beginning in 2025, taxpayers with at least \$1,000 of QBI from actively managed businesses are allowed a minimum deduction of \$400.

**Qualified Production Property:** To encourage domestic production, OBBBA, added a new temporary provision. Nonresidential real property placed in service after Jan 19, 2025, within the U.S. or its possessions can be expensed. 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, and be placed in service before January 1, 2031. This provision is geared to manufacturing, production (limited to agricultural and chemical production) or refining of qualified products. So, 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.

While generally thought of as affecting just big businesses, this provision may also apply to small, even mom-pop, manufacturing businesses.

**Section 179 Expensing:** Allows businesses to immediately expense the cost of qualifying assets such as machinery, equipment, and certain vehicles, although SUVs are limited to a specific deduction cap. Sec 179 expensing benefits many small and medium-sized business enterprises provides upfront tax savings and encourages investment. OBBBA substantially increased the limits for Sec 179 expensing. For 2025 the limit was increased to \$2.5 million and for 2026, it is inflation adjusted to \$2.56 million. However, the deduction phases out dollar-for-dollar when purchases for the year exceed \$4 million in 2025 and \$4.09 million in 2026.

A drawback to the Section 179 expensing method is that if the business' use of the asset drops to 50% or less, some or all the amount deducted may need to be recaptured.

**Bonus Depreciation:** 100% bonus depreciation was made permanent by OBBBA and after January 19, 2025, allows businesses to immediately write off 100% of the cost of qualifying assets in the year they are placed in service. This applies to new and used tangible property with a recovery period of 20 years or less, such as machinery, equipment, and certain improvements. This provision is designed to incentivize business investments by accelerating tax deductions, providing businesses immediate financial benefits and improved cash flow. For qualifying property placed in service between January 1, 2025, and January 19, 2025, the bonus depreciation rate was 40%.

It's more important than ever for individuals and businesses to be aware of the recent tax changes that could significantly impact their financial landscape. These updates not only influence how taxes are calculated but also provide opportunities for strategic advantages if navigated wisely. At our practice, we're committed to ensuring that our clients are fully prepared to face these changes head-on. By partnering with us, you can gain a clear understanding of how the new provisions might affect your unique situation. Together, we'll craft a tax strategy that not only complies with the latest regulations but also optimizes your financial outcomes. Trust us to guide you through this complex environment so you can focus on what truly matters—achieving your financial goals and securing peace of mind in an ever-evolving tax landscape.

## Why Your Tax Refund Isn't a Win (And What to Do Instead)

A big tax refund feels like a victory.

It's tangible.

It's immediate.

It feels like a bonus you didn't expect.

But in most cases, a large refund isn't a win at all. It's a signal—and not always a good one.

Especially now, as tax rules continue to shift and new provisions affect overtime, tips, deductions, and rates, **proactive tax planning matters more than ever**. Refunds tell a story about what happened last year. Planning helps shape what happens next.

## **What a Tax Refund Really Means**

At its core, a tax refund simply means you paid more than you owed.

That overpayment usually happens because:

- Too much was withheld from paychecks
- Estimated payments overshot actual liability
- Life changes weren't reflected in tax settings

In practical terms, it means you loaned money to the government throughout the year—interest free—and got it back months later.

That might feel harmless. But it often comes at a cost.

## **Why Big Refunds Are Often Missed Opportunities**

A large refund can hide issues that matter more than the headline number.

### **Cash Flow Timing**

Money withheld throughout the year is money you couldn't use for:

- Paying down debt
- Building savings
- Covering rising costs
- Investing or earning interest

Better timing doesn't mean underpaying. It means paying **closer to what you actually owe**.

### **Planning Blind Spots**

Refunds often indicate that withholding or estimates were never revisited, even as income or circumstances changed.

Which leads to the next issue.

### **Withholding Reviews: The Most Overlooked Step**

Many people set up withholding once and never touch it again.

But withholding should change when:

- Income changes
- You switch jobs
- Bonuses, overtime, or tip income increases
- Filing status changes

With recent tax law changes affecting deductions and how certain income is taxed, outdated withholding settings can quickly become misaligned.

A simple review can often reduce over-withholding without increasing risk.

### **Estimated Taxes: Not Just for Business Owners**

Estimated payments aren't only for self-employed individuals.

They also come into play when you have:

- Side income
- Investment income
- Rental income
- Large bonuses or variable compensation

Overpaying estimates can lead to big refunds. Underpaying can lead to penalties. The goal isn't perfection—**it's informed adjustment.**

### **Life Changes That Should Trigger Tax Planning**

Refunds are especially common when life changes happen mid-year and taxes don't keep up.

Examples include:

- Marriage or divorce
- A new child or dependent
- Buying or selling a home
- A significant raise or job change
- Shifts in household income

These events affect withholding, credits, deductions, and overall tax exposure. Without a check-in, the tax impact often shows up too late to adjust.

### **Why This Matters More Right Now**

With ongoing changes to tax rules, deductions, and income treatment, relying on last year's setup is riskier than it used to be.

Refunds can feel reassuring—but they often reflect **missed planning opportunities**, not tax efficiency.

Proactive reviews help ensure:

- Cash flow lines up with real life
- Payments reflect current income
- Surprises are minimized
- Decisions are made intentionally, not retroactively

### **The Bottom Line**

A tax refund isn't good or bad by itself.

But a *large* refund is usually a sign that your tax setup hasn't kept pace with your life.

Withholding reviews, estimated tax adjustments, and life-change planning can turn refunds from a once-a-year surprise into a year-round advantage.

If you're consistently receiving large refunds—or facing unexpected balances—**contact our office**. A proactive check-in can help align your taxes with how you actually live and earn.

### Important Note

This article is intended for general personal finance education. It is not legal or tax advice. Tax laws change, and individual circumstances vary. For guidance specific to your situation, consult with a qualified tax professional.

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## The One Big Beautiful Bill's Hidden Truths

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### Article Highlights:

- The One Big Beautiful Bill Act
- No Tax on Social Security
- Temporary Deduction for Seniors
- No Tax on Overtime Pay
- No Tax on Tips
- OBBBA and State Taxes

The One Big Beautiful Bill Act (OBBBA) has been heralded as a groundbreaking piece of legislation, promising extensive tax relief and sweeping changes to the U.S. tax landscape. However, beneath the surface of the touted benefits lies a complex web of provisions that may not deliver on all political promises. From unchanged taxation on Social Security benefits to the intricate details of supposedly tax-free overtime pay and tips, taxpayers must navigate a landscape that remains riddled with nuanced complexities. As individuals and families look to maximize their financial benefits, understanding these hidden truths is crucial for strategic tax planning.

**No Tax on Social Security** — Despite all the political promises and the "no tax" name of this section (and others) of the bill, there has been no change in the way Social Security benefits are taxed. As it stands, the taxability of Social Security benefits continues to depend on a taxpayer's "provisional income," which consists of their adjusted gross income (AGI), non-taxable interest, and half of their Social Security benefits. For example, single filers with provisional incomes below \$25,000 and couples with less than \$32,000 have been, and continue to be, exempt from federal taxation on their Social Security benefits. Those with incomes in the middle range can see up to 50% of these benefits taxed, while those with income above certain thresholds may have up to 85% of their benefits subject to tax.

**Temporary Deduction for Seniors** - The 2025 Act does introduce a temporary deduction for individuals 65 and older, offering up to a \$6,000 deduction per year available from 2025 to 2028. For a married couple where both spouses are 65 or older, the deduction can be up to \$12,000 when they file a joint return. This deduction is subject to Modified Adjusted Gross Income (MAGI) phaseout limits. MAGI in this case is defined as Adjusted Gross Income (AGI) increased by certain foreign income that has been excluded from AGI. For most seniors their MAGI will be the same as their AGI. This deduction is structured to benefit both itemizers and non-itemizers by being deductible when figuring their taxable income.

**No Tax on Overtime Pay** — Another common misconception is that overtime pay will not be taxable. The One, Big, Beautiful Bill Act (OBBBA) introduces a unique provision that creates some confusion: while it allows a deduction for the premium portion of overtime compensation—specifically, the extra pay received over the standard hourly rate—this only affects income tax calculations, leaving payroll (FICA) taxes fully applicable to all overtime pay. The possible deduction is capped at \$12,500 for individual taxpayers and \$25,000 for joint filers, with an additional phase-out for those with higher Modified Adjusted Gross Income (MAGI) beyond certain thresholds. Critically, this is only a temporary deduction, available

from 2025 through 2028, offering a window for potential income tax savings but with no effect on the obligatory payroll taxes, which continue to apply to the entire overtime pay.

**No Tax on Tips** - There is the notion that all tip income is now entirely tax-free. This claim, however, oversimplifies the truth and overlooks essential details about the current tax regulations.

While the OBBBA introduced a limited exclusion for tip income, it's important to clarify that only a portion of such income is eligible for this tax break, and it remains subject to a defined cap. This cap limits the amount of tip earnings that can be excluded from income tax, meaning that not all tip income is free from taxation. Any tips exceeding this cap will still be considered taxable. Plus, tips received in some specified occupations or businesses will not qualify for the deduction.

Moreover, it's crucial to understand that tip income is not exempt from all forms of taxes; it remains subject to payroll taxes. Thus, while a fraction of tips might escape federal income tax within certain limits, Social Security and Medicare deductions still apply, ensuring that individuals must continue to account for these contributions from their tip earnings.

Additionally, the new provision allowing for a partial exclusion of tip income is only a temporary measure. Set to expire at the end of 2028, unless further legislative actions extend its duration or make it a permanent deduction, this feature is time constrained. Those who benefit from the exclusion must plan accordingly for its eventual expiration.

**OBBBA and State Taxes** - As "The One Big Beautiful Bill's Hidden Truths" reveals, the nationwide implementation of the Act's tax cuts remains uneven and fraught with complexities. By 2026, only eight states are expected to fully embrace these federal tax exemptions on tipped wages and overtime pay, measures implemented during the Trump administration. Many blue states, including New York, Illinois, and California, have opted against extending these cuts at the state level, primarily to safeguard against potential budget deficits.

Conversely, states like Colorado have adopted a policy of "rolling conformity," automatically updating their tax codes to mirror federal changes, unless explicitly decided otherwise. This stands in contrast to most states, which tend to only partially align their tax frameworks with the Internal Revenue Code, focusing more on adjusted gross income. This selective alignment reflects concerns over the economic inefficiencies and costs associated with certain temporary personal deductions.

States such as Michigan have embraced these tax breaks for overtime wages and tips, with similar proposals under consideration in Kentucky and North Carolina. Leading the way in full conformity are South Carolina, North Dakota, Montana, and Idaho, which apply the federal breaks for qualified tips, car loan interest, overtime pay, and deductions for seniors. Meanwhile, Oregon and Iowa largely conform to these provisions. This patchwork of state adoptions underscores the complexities and political nuances in harmonizing state and federal tax policies, highlighting the subtle yet significant impacts of the One Big Beautiful Bill on the broader economic landscape.

### **Conclusion:**

While the One Big Beautiful Bill Act brings forward certain tax cuts and benefits, it is imperative to unravel the underlying truths that may temper some of the initial enthusiasm. The unchanged taxation on Social Security, the conditional and temporary nature of deductions for seniors, and the misinterpretations surrounding tax-free overtime and tip income highlight the need for diligent tax planning and awareness. As taxpayers strive to leverage these provisions, recognizing the time-bound nature and specific conditions of these benefits will be essential in crafting a fiscally responsible and informed approach, ensuring ongoing adaptability in the face of evolving legislative landscapes.

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