

Comprehensive Guide to 2025 Tax Changes: What Taxpayers Need to Know

Article Highlights:

- Modified Adjusted Gross Income (MAGI)
- Senior Deduction Enhancements
- Tax Relief for Tips and Overtime Earnings
- Vehicle Loan Interest Deduction
- Adoption and Child Tax Credits
- SALT Deduction Limit 2025-2029
- Reduction in Environmental Incentives
- Super Retirement Catch-Up Contributions
- Expanded Use of Educational Funds
- Trump Account Election
- Business Tax Changes
- Qualified Small Business Stock
- Third Party Network Transaction Reporting
- Beneficiary RMD Requirements

As we deal with 2025 tax return preparation, you should be aware of significant shifts in the tax rules brought by the One Big Beautiful Bill (OBBBA) legislation and some delayed effective dates from other legislation. These changes are poised to impact various taxpayer categories, affecting both individual and business tax returns. Navigating these changes requires careful planning and strategic adjustments to ensure compliance and to optimize tax liabilities. This article delves into the key alterations and enhancements for the 2025 tax returns.

Modified Adjusted Gross Income (MAGI) - Modified Adjusted Gross Income (MAGI) is a calculation used to determine eligibility for certain tax benefits, credits, and deductions. The term is used extensively in this article. It starts with a taxpayer's Adjusted Gross Income (AGI), which is total gross income minus various exclusions and deductions allowed by law. Then, AGI is modified by certain types of the excluded income - in other words, some of the excluded income is added back to the AGI, with the result being the modified AGI (MAGI).

Senior Deduction Enhancements - Beginning for 2025 and extending to 2028, seniors aged 65 or older will benefit from a new deduction opportunity. Eligible seniors can each claim a \$6,000 deduction usable by both itemizers and those opting for the standard deduction. However, this senior-friendly benefit is reduced when the senior's Modified Adjusted Gross Income (MAGI) hits \$75,000 for singles and \$150,000 for married couples filing jointly.

Tax Relief for Tips and Overtime Earnings - A new deduction allows employees in customary tip-receiving roles to deduct up to \$25,000 of their tip income from their taxable income from 2025 to 2028.

Additionally, employees can deduct portions of their overtime (OT) pay that exceed their regular rates, generally limited to (1) OT hours more than 40 per week and (2) the premium portion of the OT on up to time and a half pay. The deduction is capped at \$12,500 for individuals and \$25,000 for married couples filing jointly.

Both deductions are limited for higher income taxpayers. They begin to phase out for taxpayers with a MAGI of \$150,000 for singles and \$300,000 for joint filers.

Important Warning About Overtime (OT) - The law that created the OT deduction was enacted in mid-2025 and applied retroactively to the beginning of the year. As a result, employers may not have the details to provide the OT amount needed for calculating an employee's deduction. Consequently, it is the responsibility of taxpayers and their tax preparers to determine the deductible amount. Taxpayers should aim to provide pay stubs or other documentation for the periods they received OT.

It's crucial to recognize that only hours worked more than 40 hours per week qualify as deductible overtime, limited to 50% of the regular pay rate (the premium amount). Therefore, there may be cases where some overtime hours do not qualify, or where the premium exceeds the permissible 50% of the regular pay, requiring adjustment.

Please consider contacting our office in advance to discuss what information and documentation might be necessary for your particular situation.

Vehicle Loan Interest Deduction - A significant shift for vehicle owners is the deduction pertaining to loan interest for new personal-use vehicles assembled in the U.S. and acquired after 2024. This deduction, which is available to both itemizers and non-itemizers, allows up to \$10,000 of interest to be deducted annually on loans secured by vehicles weighing less than 14,000 pounds. Introducing a structured framework, it mandates documentation including the Vehicle Identification Number (VIN) be included on the tax return. The deduction phases out once MAGI reach \$100,000 (\$200,000 if filing a joint return).

Adoption and Child Tax Credits - With the intention of supporting family growth and education, the Adoption Credit will increase to \$17,280, of which \$5,000 is refundable. There's a MAGI phase-out threshold starting at \$259,190 and fully phased out at \$299,190.

A more generous Child Tax Credit was introduced, allowing \$2,200 per child, with a refundable segment of \$1,700. The credit incorporates a phase-out initiated at \$200,000 for individuals and \$400,000 for joint filers.

SALT Deduction Limit 2025-2029 - For 2025 the limit for deducting state and local taxes when itemizing is \$40,000, and the limit phases down starting at \$500K MAGI, reaching a \$10K floor at \$600,000. The limit never drops below \$10,000. Limit and phaseouts increase annually thru 2029, then the limit reverts to \$10K in 2030.

Reduction in Environmental Incentives - Residential clean energy credits, including solar, and home energy efficient improvement credits are no longer available after December 31, 2025. The electric vehicle credits expired for purchases after September 30, 2025.

Super Retirement Catch-Up Contributions - Individuals aged 60 through 63 can now contribute a greater amount than the standard catch-up contribution amounts 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 was \$11,250, except for SIMPLE plans which is \$5,250. The standard catch-up amount for those ages 50 through 59 and over 63 is \$7,500 (\$4,000 for SIMPLE plans).

Expanded Use of Educational Funds - Further flexibility is granted for 529 Plans post-July 4, 2025, allowing distributions to cover expenses related to elementary and secondary schooling as well as credentialing programs.

Trump Account Election - Trump Accounts are the equivalent of an IRA for children allowing contributions from birth through age 17, giving youngsters a financial head start for their future. The government establishes Trump Accounts for parents or guardians that elect to open a Trump Account, and the accounts can begin accepting contributions July 4, 2026. The election to establish these accounts can easily be done on the 2025 tax return. The government will seed these accounts with a \$1,000 contribution for children born in 2025 through 2028. There are downsides to establishing these accounts.

Business Tax Changes:

- **Bonus Depreciation** - 100% bonus depreciation was made permanent after January 19, 2025. Between January 1, 2025, and January 19, 2025, the bonus depreciation rate was 40%.
- **Interest Deduction Limit** - Beginning for 2025 the business Interest Deduction limit is determined using EBITDA instead of EBITA. Small businesses are exempt from this limitation in 2025 if their average gross receipts over the past three years does not exceed \$31 million.
- **Sec 179 Expensing** - The Sec 179 expense limit was increased to \$2.5 million. However, the deduction phases out dollar-for-dollar when purchases for the year exceed \$4 million.

- **Research or Experimental Expenditures** - Domestic research or experimental expenditures are immediately deductible. Those incurred outside the U.S. continue to be amortized over 15-years.

Qualified Small Business Stock (QSBS) – QSBS refers to shares in a domestic C corporation that meet specific IRS requirements. Shareholders benefit from a substantial exclusion from capital gains tax on profits earned from selling the stock. For shares acquired after July 4, 2025, shareholders can exclude gains from the sale of QSBS acquired after that date; the exclusion rates are 50% after three years, 75% after four years, and 100% after five years of holding the stock. Exclusion cap is \$15 million, and the Corp's asset limit is increased to \$75 million, both of which will be adjusted for inflation after 2026.

Third-Party Network Transaction Reporting (1099-K) - In an effort to streamline tax compliance, the IRS has reinstated higher thresholds for the third-party network transaction reporting – Form 1099-K, setting it back to \$20,000 in gross payments and 200 transactions. This reinstatement aims to ease reporting burdens and improve transactional transparency.

Beneficiary RMD Requirements - Confusion arose regarding the RMD requirements for IRAs under the 10-year rule. Beneficiaries must deplete the account by the end of 10 years and take annual RMDs. Due to the confusion, the IRS waived penalties for years before 2025. Beneficiaries should have taken an RMD in 2025. If not taken in 2025, both one for 2025 and 2026 must be taken in 2026 and a penalty waiver requested for 2025.

In conclusion - Staying informed about the latest changes affecting your 2025 tax return is essential to maximizing your potential tax benefits and ensuring a smooth preparation process. By gathering the appropriate documentation, familiarizing yourself with relevant changes, and developing a list of questions you may have, you can engage in a more efficient and successful discussion with your tax preparer. If you have any questions or need further clarification on specific aspects of your tax situation, please do not hesitate to contact this office to assist you in navigating these changes effectively.

Landmark US Court Ruling May Let Taxpayers Reclaim Penalties and Interest

Article Highlights:

- Landmark U.S. Court of Federal Claims Ruling
- Opens the Possibility of Penalty and Interest Refunds
- What This Means for Taxpayers
- Key Actions for Affected Taxpayers
- Filing a Protective Claim
- Deadlines and Expiration
- Preparing Your Next Steps

If you paid the IRS tax penalties and interest during the COVID-19 pandemic, this article includes important information on how you may be able to recover those amounts because of a recent court case.

The landmark ruling in *Kwong vs. United States* by the U.S. Court of Federal Claims has potentially significant implications for taxpayers, particularly those who incurred federal tax penalties and interest during the COVID-19 pandemic. This decision may pave the way for many taxpayers to claim refunds for penalties and interest charges previously assessed during this period. Here, we will explore what this case means for you, what action you might need to take, and the importance of filing a protective claim to preserve your rights.

The Core of the Kwong vs. U.S. Decision - In *Kwong vs. U.S.*, the court ruled that the 2019 version of Internal Revenue Code Section 7508A(d) provides a mandatory, automatic extension of tax deadlines during a federally declared disaster. This specific case deals with the COVID-19 pandemic, during which these extensions spanned from January 20, 2020, to July 10, 2023. The court rejected the IRS's stance that extensions could only last for one year, thereby potentially nullifying certain penalties and interest accrued during that extended period.

What This Means for Taxpayers - The significant takeaway from this decision is that the legal deadlines for paying taxes were effectively moved to July 10, 2023. Consequently,

"failure-to-file" or "failure-to-pay" penalties assessed between 2020 and 2023 could have been wrongly imposed. This opens the door for taxpayers to seek refunds for these penalties.

Key Actions for Affected Taxpayers:

1. Review Your Taxpayer Account Transcripts: It is crucial to check for any penalties or interest charges that were assessed on your accounts for deadlines occurring between January 20, 2020, and July 10, 2023.

Tax transcripts can be ordered from the IRS for free via the online [Get Transcript tool on IRS.gov](#), by mail using Form 4506-T, or by calling 800-908-9946. The fastest method is ordering online for immediate download. You will need to create an account and verify your identity. If you need assistance contact our office.

2. File a Protective Refund Claim: Given the potential that the government will appeal the Kwong case, and to safeguard your rights while the appeal is ongoing, taxpayers should file a Claim for Refund and Request for Abatement on Form 843. This form allows you to claim a refund or request the abatement of penalties and interest.

3. Request Penalty Abatement: If you still owe penalties from this period, you can use the ruling in the Kwong decision as justification for an abatement request.

4. Leverage New Automatic Relief: Beginning in 2026, the IRS plans to apply First-Time Abatement (FTA) of certain penalties automatically to eligible taxpayers with a clean three-year history. This presents an alternative route for removing penalties.

Filing a Protective Claim - It's vital to understand that although the Kwong ruling is currently in effect, the IRS may appeal this decision. Filing a protective claim ensures that your rights to potential refunds remain preserved during the appeal process. Such claims act as placeholders, preventing the statute of limitations from expiring while legal proceedings continue.

Deadlines and Expiration - According to the ruling, any claims for refunds related to this decision need to be filed within three years from the legally recognized deadline of July 11, 2023. This means that the final day to submit claims to the IRS is July 10, 2026.

Conclusion: Preparing Your Next Steps — If you are a taxpayer potentially impacted by the Kwong vs. U.S. decision, staying informed and proactive is crucial. Review your past tax records and if the penalties and interest are substantial enough, consult with this office to ensure a protective claim is filed to preserve your potential refund. While the possibility of an IRS appeal looms, taking these steps now could save you from losing out on refunds due to the expiration of the statute of limitations.

It's Tax Time - Beware of Scams

Article Highlights:

- Awareness
- Seniors Are Frequent Targets
- How to Spot a Scam
- Common Phishing Emails
- Common Smishing Texts
- How to Protect Yourself
- Social Media

Tax season is a busy time for taxpayers. It is also a busy time for criminals as they ramp up efforts to trick people into sharing sensitive personal information. Identity thieves use this information to try filing false tax returns and stealing refunds, plus scam you financially in other ways.

You may think you are harp on a lot about protecting yourself against identity theft and tax scams. It because having your identity stolen becomes an absolute financial nightmare, sometimes taking years to straighten out. Identity thieves are clever, relentless, and always coming up with new schemes to trick you. And all you have to do is slip up just once to compromise your identity and your nightmare begins.

Awareness - Identity thieves and scammers often imitate the IRS name, logo or web site to convince taxpayers that the scam is a genuine communication from the IRS. Scammers may use other federal agency names, such as the U.S. Department of the Treasury.

In an identity theft scam, a fraudster, often posing as a trusted government, financial or business institution or official, tries to trick a victim into revealing personal and financial information, such as credit card numbers and passwords, bank account numbers and passwords, Social Security numbers and more. Generally, identity thieves use someone's personal data to steal his or her financial accounts, run up charges on the victim's existing credit cards, or apply for new loans, credit cards, services, or benefits in the victim's name and even file fraudulent tax returns.

Scams come in many forms and are usually initiated by a letter, fax, email or with a phone call or text. When scam artists use email to lure its victims, it is referred to as "phishing" scams.

Seniors Are Frequent Targets -Scammers frequently target people over age 65 or nearing retirement for personal or financial information or money. Often, once seniors give them money, they ask for more. When a person is scammed out of tax-deferred retirement funds, the lost funds may be considered a taxable distribution, subject to ordinary income tax and potential early withdrawal penalties if the account owner is under age 59½. While victims might claim a theft loss deduction if the scam was profit-motivated and recovery is unlikely, this process is complex.

Encourage your elderly family members to discuss any suspicious messages or offers with you or another trusted individual before taking any action, as this can help them avoid falling victim to scams. Regular conversations about new scam tactics can empower them to make informed decisions and protect their financial well-being.

How to Spot a Scam –Phishing emails and smishing texts, often share common characteristics that can help in identifying them. Typically, they create a sense of urgency, pressuring potential victims to act swiftly without much deliberation—whether it's claiming you're in trouble, that you've won an unexpected prize, or that there's a problem needing immediate attention. Be wary of unsolicited communications, especially those requesting personal information or payment over the phone or through unexpected emails and texts. Scammers may also pose as legitimate companies or government entities, using official-sounding language to gain trust. Additionally, if an offer seems too good to be true, it likely is. Verify suspicious communications by contacting the company or individual through official channels and consult with someone you trust before proceeding with unfamiliar requests. Here are some signs to watch for, such as an email that:

- Requests detailed or an unusual amount of personal and/or financial information, such as name, SSN, bank or credit card account numbers or security-related information, such as your mother's maiden name, either in the email itself or on another site to which a link in the email sends the recipient.
- Dangles bait to entice the recipient to respond to the email, such as mentioning a tax refund or offering to pay the recipient to participate in an IRS survey.
- Threatens a consequence for not responding to the email, such as additional taxes or blocking access to the recipient's funds.
- Gets the Internal Revenue Service or other federal agency names wrong.
- Uses incorrect grammar or odd phrasing (many of the email scams originate overseas and are written by non-native English speakers).

- Uses a long address in any link contained in the email message or one that does not start with the actual IRS web site address (www.irs.gov). To see the actual link address or URL, move the mouse over the link included in the text of the email.
- When trying to spot a potential scam, taking a closer look at the sender's email address can provide valuable clues. Scammers often use email addresses that slightly deviate from real company domains, perhaps with misspellings or extra characters. Additionally, if the domain or extension appears unusual or originates outside the U.S., it should immediately raise red flags.

Common Phishing Emails: Scammers use emails to install malware or direct victims to fake websites that mimic official sites to steal credentials.

- **Phony Tax Refunds** - Emails stating you qualify for a large refund and must click a link to access it.
- **False Legal/Criminal Charges** - Messages threatening immediate legal action or arrest for alleged tax fraud, pressuring you to act without thinking.
- **Underreported Income Notices** - Emails claiming to be a notice of underreported income and containing an attachment or link to a bogus "tax statement". Opening the attachment or clicking the link can download malware to your computer.
- **"Update Your Account" Requests** - Emails with suspicious links, such as "[IRScgov](#)" (missing the dot), instructing you to update your IRS online account or IP PIN immediately.
- **Offers of Third-Party Help** - Scammers posing as a "helpful" third party offering to create your IRS Online Account to steal your personal information.

Common Smishing Texts: These text messages often use alarming language or promise financial assistance to trick you into clicking malicious links.

- **Account on Hold/Unusual Activity** - Texts claiming, "Your account has now been put on hold," or "Unusual Activity Report," with a link to "restore" your account.
- **Unexpected Refunds/Payments** - Messages mentioning an unexpected tax refund or economic impact payment and providing a suspicious link.
- **Urgent Action Demands** - Texts with an urgent tone, pressuring you to open a link or attachment to avoid penalties or take advantage of a credit.
- **Callback Numbers** - Messages that include a phone number to call back, which connects you directly to a scammer.

How to Protect Yourself:

- **Do not click** links or open attachments in unsolicited emails or texts claiming to be from the IRS or other tax-related entities.
- **The IRS will never** demand immediate payment, demand a specific payment method (like gift cards or wire transfers), or threaten arrest or deportation.
- **Verify contact** directly with the agency using official contact numbers listed on the IRS website or by logging into your secure IRS Online Account if you have previously established one.
- **Report suspicious messages** by forwarding the email to phishing@irs.gov and the text message details (sender number, content, date/time) to the same email address with "Text" in the subject line.

- **Obtain an identity protection PIN (IP PIN), which** is a unique six-digit number assigned by the IRS to prevent identity thieves from filing fraudulent federal income tax returns using your Social Security number (SSN) or Individual Taxpayer Identification Number (ITIN).

It acts as an authentication tool. If a return is filed without the correct IP PIN, the IRS will reject it, preventing someone else from claiming a refund in your name. An IP PIN is valid for **one calendar year**. A new PIN is generated every year for security. It is used only for federal tax forms in the 1040 series.

Those who have been victims of tax-related identity theft and have had their issues resolved are automatically enrolled and receive a new IP PIN by mail annually. Any taxpayer with an SSN or ITIN who can verify their identity can voluntarily join the program to add a layer of security at the [IRS Get an IP PIN tool](#).

Social media: Misinformation about taxes is rampant on social media, and misleading advice can have serious repercussions for taxpayers, particularly surrounding credit or refund eligibility. Influencers, who often lack formal tax training, might encourage individuals to falsify information on their tax forms, claiming it will maximize their refunds or credits. Worse, they may propagate unfounded claims that the IRS is concealing certain tax credits from the public. Such misinformation not only jeopardizes tax compliance but can also invite audits and penalties. Additionally, these misleading social media posts often serve as gateways for scammers, who exploit the guise of tax advice to gain trust and ultimately steal sensitive personal information. It's crucial for taxpayers to seek professional guidance for accurate tax information.

Conclusion: Be aware the IRS will never contact you via email, text messages, or social media to request personal or financial information; instead, they typically reach out by sending official notices through the U.S. Postal Service.

If you have questions or need assistance with any of the issues discussed in this article, 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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