

WHAT YOU NEED TO  
KNOW FOR TAX SEASON

2026

 canopy



# Introduction

One question on all our minds as we traveled through 2025 – what was going to happen with all the TCJA tax provisions expiring? Well we do finally have our answer with a new bill signed midyear, the One Big Beautiful Bill Act (OBBBA). This helps us to know what to expect, what was made permanent, what was changed slightly, what is gone, and what is brand new. Not only that, but prior legislation also had provisions that took effect in 2025. And to add to that, new inflation adjustments also made changes in the tax rates and brackets, as well as most every other aspect of taxes and credits since many of them are also “indexed” or tied to inflation. So, the one thing we can say about 2025 is it is definitely year of change.

In this eBook, we’ll go over the main things you need to know, from tax bracket inflation adjustments to other changes in tax law effective for 2025 and looking ahead into 2026, in order to be best equipped to help your individual and business clients this upcoming tax season.

## What You Need to Know for Tax Season 2026

1. Tax rates and brackets
2. Capital Gains Tax Brackets & Net Investment Income Tax (NIIT)
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# Tax Rates & Brackets

For tax year 2025, the seven tax rates remain unchanged: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. The tax brackets adjusted for inflation and the tax owed for different filing statuses are listed in the following pages.

Beginning in 2026, these tax rates have been made permanent with the OBBBA. Inflation adjustments continue to affect the future tax brackets as well, so they have been listed here for tax planning and reference purposes (Source: IRS)



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# Tax Rates & Brackets

## 2025

### Single Filers

TAX RATES	BRACKET	TAX OWED
10%	\$0 to \$11,925	10% of taxable income
12%	\$11,925 to \$48,475	\$1,192.50 + 12% of amount over \$11,925
22%	\$48,475 to \$103,350	\$5,578.50 + 22% of amount over \$48,475
24%	\$103,350 to \$197,300	\$17,651.00 + 24% of amount over \$103,350
32%	\$197,300 to \$250,525	\$40,199.00 + 32% of amount over \$197,300
35%	\$250,525 to \$626,350	\$57,231.00 + 35% of amount over \$250,525
37%	\$626,350 and over	\$188,769.75 + 37% of amount over \$626,350

## 2026

### Single Filers

TAX RATES	BRACKET	TAX OWED
10%	\$0 to \$12,400	10% of taxable Income
12%	\$12,400 to \$50,400	\$1,240 + 12% of amount over \$12,400
22%	\$50,400 to \$105,700	\$5,800 + 22% of amount over \$50,400
24%	\$105,700 to \$201,775	\$17,966 + 24% of amount over \$105,700
32%	\$201,775 to \$256,225	\$41,024 + 32% of amount over \$201,775
35%	\$256,225 to \$640,600	\$58,448 + 35% of amount over \$256,225
37%	\$640,600 and over	\$192,979.25 + 37% of amount over \$640,600

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# Tax Rates & Brackets

## 2025

### Married Filing Jointly and Qualifying Surviving Spouse

TAX RATES	BRACKET	TAX OWED
10%	\$0 to \$23,850	10% of taxable Income
12%	\$23,850 to \$96,950	\$2,385.00 + 12% of amount over \$23,850
22%	\$96,950 to \$206,700	\$11,157.00 + 22% of amount over \$96,950
24%	\$206,700 to \$394,600	\$35,302.00 + 24% of amount over \$206,700
32%	394,600 to \$501,050	\$80,398.00 + 32% of amount over \$394,600
35%	\$501,050 to \$751,600	\$114,462.00 + 35% of amount over \$501,050
37%	\$751,600 and over	\$202,154.50 + 37% of amount over \$751,600

## 2026

### Married Filing Jointly and Qualifying Surviving Spouse

TAX RATES	BRACKET	TAX OWED
10%	\$0 to \$24,800	10% of taxable Income
12%	\$24,800 to \$100,800	\$2,480 + 12% of amount over \$24,800
22%	\$100,800 to \$211,400	\$11,600 + 22% of amount over \$100,800
24%	\$211,400 to \$403,550	\$35,932 + 24% of amount over \$211,400
32%	\$403,550 to \$512,450	\$82,048 + 32% of amount over \$403,550
35%	\$512,450 to \$768,700	\$116,896 + 35% of amount over \$512,450
37%	\$768,700 and over	\$206,583.50 + 37% of amount over \$768,700

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# Tax Rates & Brackets

## 2025

### Married Filing Separately

TAX RATES	BRACKET	TAX OWED
10%	\$0 to \$11,925	10% of taxable Income
12%	\$11,925 to \$48,475	\$1,192.50 + 12% of amount over \$11,925
22%	\$48,475 to \$103,350	\$5,578.50 + 22% of amount over \$48,475
24%	\$103,350 to \$197,300	\$17,651.00 + 24% of amount over \$103,350
32%	\$197,300 to \$250,525	\$40,199.00 + 32% of amount over \$197,300
35%	\$250,525 to \$375,800	\$57,231.00 + 35% of amount over \$250,525
37%	\$375,800 and over	\$101,077.25 + 37% of amount over \$375,800

## 2026

### Married Filing Separately

TAX RATES	BRACKET	TAX OWED
10%	\$0 to \$12,400	10% of taxable Income
12%	\$12,400 to \$50,400	\$1,240 + 12% of amount over \$12,400
22%	\$50,400 to \$105,700	\$5,800 + 22% of amount over \$50,400
24%	\$105,700 to \$201,775	\$17,966 + 24% of amount over \$105,700
32%	\$201,775 to \$256,225	\$41,024 + 32% of amount over \$201,775
35%	\$256,225 to \$384,350	\$58,448 + 35% of amount over \$256,225
37%	\$384,350 and over	\$103,291.75 + 37% of amount over \$384,350

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# Tax Rates & Brackets

## 2025

### Head of Household

TAX RATES	BRACKET	TAX OWED
10%	\$0 to \$17,000	10% of taxable Income
12%	\$17,000 to \$64,850	\$1,700.00 + 12% of amount over \$17,000
22%	\$64,850 to \$103,350	\$7,442.00 + 22% of amount over \$64,850
24%	\$103,350 to \$197,300	\$15,912.00 + 24% of amount over \$103,350
32%	\$197,300 to \$250,500	\$38,460.00 + 32% of amount over \$197,300
35%	\$250,500 to \$626,350	\$55,484.00 + 35% of amount over \$250,500
37%	\$626,350 and over	\$187,031.50 + 37% of amount over \$626,350

## 2026

### Head of Household

TAX RATES	BRACKET	TAX OWED
10%	\$0 to \$17,700	10% of taxable Income
12%	\$17,700 to \$67,450	\$1,770 + 12% of amount over \$17,700
22%	\$67,450 to \$105,700	\$7,740 + 22% of amount over \$67,450
24%	\$105,700 to \$201,750	\$16,155 + 24% of amount over \$105,700
32%	\$201,750 to \$256,200	\$39,207 + 32% of amount over \$201,750
35%	\$256,200 to \$640,600	\$56,631 + 35% of amount over \$256,200
37%	\$640,600 and over	\$191,171 + 37% of amount over \$640,600

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# Tax Rates & Brackets

The tax rates for trusts and estates are 10%, 24%, 35%, and 37%. The tax brackets and tax owed are as follows:

## 2025

### Trusts and Estates

TAX RATES	BRACKET	TAX OWED
10%	\$0 to \$3,150	10% of taxable Income
24%	\$3,151 to \$11,450	\$315.00 + 24% of amount over \$3,150
35%	\$11,451 to \$15,650	\$2,307.00 + 35% of amount over \$11,450
37%	\$15,651 and Over	\$3,777.00 + 37% of amount over \$15,650

## 2026

### Trusts and Estates

TAX RATES	BRACKET	TAX OWED
10%	\$0 to \$3,300	10% of taxable Income
24%	\$3,301 to \$11,700	\$330 + 24% of amount over \$3,300
35%	\$11,701 to \$16,000	\$2,346 + 35% of amount over \$11,700
37%	\$16,001 and Over	\$3,851 + 37% of amount over \$16,000

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# Capital Gains Tax Brackets & Net Investment Income Tax (NIIT)

Tax rates on long-term capital gains and qualified dividends did not change for 2025. However, the qualifying income thresholds have been adjusted for inflation.

## Long-Term Capital Gains and Qualifying Dividends Tax Rate

TAX RATES	SINGLE	MARRIED FILING JOINTLY	HEAD OF HOUSEHOLD	MARRIED FILING SEPARATELY
0%	Up to \$48,350	Up to \$96,700	Up to \$64,750	Up to \$48,350
15%	\$48,351-\$533,400	\$96,701-\$600,050	\$64,751-\$566,700	\$48,351-\$300,000
20%	\$533,401	\$600,051	\$566,701	\$300,001

## Net Investment Income Tax (NIIT)

The 3.8% surtax on net investment income remains unchanged for 2025. It applies to:

**Single:** Modified AGI over \$200,000.

**Married Filing Separately:** Modified AGI over \$125,000.

**Married Filing Jointly or Qualified Surviving Spouse:** Modified AGI over \$250,000.

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# Adjusted Standard Deduction

The TCJA standard deduction increase (and permanent repeal of personal exemptions) was made permanent by the OBBBA. It was also slightly expanded and made effective for 2025.

For 2025, the standard deduction for single taxpayers and those married filing separately was increased by \$400 to \$15,000, but the OBBBA added another \$750 to \$15,750. For taxpayers who are married filing jointly, the standard deduction was increased by \$800 to \$30,000, but the OBBBA added another \$1,500 to \$31,500 instead, and for heads of household, the amount originally increased by \$600 to \$22,500 but is another \$1,125 was added with the OBBBA to make it \$23,625 instead.

## 2025

FILING STATUS	STANDARD DEDUCTION AMOUNT	
	(NOW)	(WAS)
Single	\$15,750	\$15,000
Married Filing Jointly	\$31,500	\$30,000
Married Filing Separately	\$15,750	\$15,000
Head of Household	\$23,625	\$22,500

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# Adjusted Standard Deduction

For comparison, for 2026, the standard deduction for single taxpayers and those married filing separately will be increased by another \$350 to \$16,100. For taxpayers who are married filing jointly, the standard deduction will be increased by another \$700 to \$32,200, and for heads of household, the amount will be increased by another \$525 to \$24,150.

## 2026

FILING STATUS	STANDARD DEDUCTION AMOUNT
Single	\$16,100
Married Filing Jointly	\$32,200
Married Filing Separately	\$16,100
Head of Household	\$24,150

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# Adjusted Standard Deduction

## **Dependent Standard Deduction:**

For individuals that may be claimed as a dependent by another taxpayer, the amount cannot exceed the greater of \$1,350 or \$450 plus their earned income in 2025. This will continue as \$1,350 or \$450 plus earned income in 2026

## **Aged or Blind:**

The additional standard deduction amount for the aged or blind for 2025 is \$1,600 or \$2,000 if they are also unmarried and not a surviving spouse.

In 2026 this additional amount is \$1,650 and \$2,050 respectively.

## **Qualifying Relative:**

Gross income limitation for 2025 to be considered a qualifying relative is \$5,200

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# New Schedule 1-A Deductions

Along with the OBBBA we have new items that were introduced that caused a new Schedule to be created. While these are only going to be for 4 years, they are effective starting for 2025, so we will be working with them all in this year's tax returns. Eligible years: 2025, 2026, 2027, 2028 for all of these deductions.

### No Tax On Tips:

Qualified tips – received by an individual in an occupation which customarily and regularly receives tips (prior to 12/31/24) can have a deduction of up to \$25,000 deduction cap per return (no matter filing status). This is phased out by \$100 for each \$1,000 MAGI exceeding \$150,000 (or \$300,000 MFJ)

AGI is modified and increased for income under §911, §931, §941 (foreign income basically)

Qualified tips eligible must be included on statements furnished to the taxpayer (TT in Box 12 for example, or included on 1099-NEC or 1099-MISC information). There will be a transition period for 2025 since many employers/payors may not be equipped or ready to handle the reporting yet for 2025

\*Note – MFS filing status not eligible for this deduction

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# New Schedule 1-A Deductions

## No Tax On Overtime:

Qualified overtime compensation – paid to an individual required under section 7 of the Fair Labor Standards Act of 1938 that is in excess of the regular rate. Those eligible can deduct up to \$12,500 (\$25,000 MFJ) Note: MFS is not eligible for this deduction (in other words – just the ½ time portion in time and a half pay).

This is phased out by \$100 for each \$1,000 MAGI exceeding \$150,000 (or \$300,000 MFJ)

AGI is modified and increased for income under §911, §931, §941 (foreign income basically)

Overtime amounts eligible for the deduction must be included on statements furnished to the taxpayer (TO in Box 12 for example, or included on 1099-NEC or 1099-MISC information). There will be a transition period for 2025 since many employers/payors may not be equipped or ready to handle the reporting yet for 2025

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# New Schedule 1-A Deductions

## No Tax On Car Loan Interest:

New deduction for Qualified Passenger Vehicle Loan Interest

\*Any interest paid or accrued during the taxable year

\*Indebtedness must be incurred after 12/31/24

\*Vehicle must be secured by a first lien

\*Excludes fleet sales & commercial vehicles not used for personal purposes

\*Excludes cash-out loans on a previously purchased vehicle

\*May include refinancing of existing debt

\*Excludes lease financing

\*Excludes salvage titles and vehicles to be used for scrap / parts

\*Excludes interest on loans owed to a related party

\*Manufactured primarily for use on public roads

\*Has at least 2 wheels (Car, minivan, van, SUV, pickup, motorcycle)

\*Final assembly must occur in the U.S.

\*Limited to new vehicles

Those eligible can have a deduction of up to \$10,000 in this category.

This is phased out by \$200 for each \$1,000 MAGI exceeding \$100,000 (or \$200,000 MFJ)

AGI is modified and increased for income under §911, §931, §941 (foreign income basically)

This deduction also creates new reporting requirements (think 3rd party reporting just for matching purposes)

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# New Schedule 1-A Deductions

## Enhanced Deduction for Seniors:

Seniors are entitled to an additional \$6,000 exemption per person.

Available to taxpayers who have reached age 65 before the close of the tax year

Reduced by 6% of the amount MAGI exceeds \$75,000 (\$150,000 MFJ) and fully phased out at \$175,000 (\$250,000 MFJ)

AGI is modified and increased for income under §911, §931, §941 (foreign income basically).

Seniors filing MFJ are able to take advantage of \$12,000 if both qualify (lines 36a and 36b on Schedule 1-A allow for this calculation)

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# IRS Adjusted Interest Rates

With all the changes inflation is causing in our tax code, the interest rates are no different! When clients owe the IRS, interest applies, and now they will be able to charge an even higher rate compared to where it was back as recently as 2022, when it was in the 3%-6% range. This includes when they underpay tax, or even estimated tax penalties, which are tied to interest rates. It is at least lower than 2024, which saw 8% rates for the year, so this does show it trending back down.

While it will continue to change into the future, the most recent quarters show the following interest rates for the IRS:

7% - 2025 1<sup>st</sup> Quarter

7% - 2025 2<sup>nd</sup> Quarter

7% - 2025 3<sup>rd</sup> Quarter

7% - 2025 4<sup>th</sup> Quarter

7% - 2026 1<sup>st</sup> Quarter

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# Income Subject to “Kiddie Tax”

For 2025, the amount used to reduce the net unearned income reported on a child’s return subject to the “Kiddie Tax” is \$1,350, (also \$1,350 for 2026).

This amount is used to determine whether a parent may elect to include a child’s gross income in the parent’s gross income and calculate the “kiddie tax”. For example, one of the requirements for the parental election is that the child’s gross income is more than the annual adjusted amount but less than 10 times that amount, so for 2025 it must be more than \$1,350 but less than \$13,500. (or more than \$1,350 but less than \$13,500 for 2026)

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# Earned Income Tax Credit (EITC)

For 2025, EITC is figured the same as it was in 2024. Here are the new inflation adjusted amounts for calculating this credit.

	NO CHILDREN	W/1 CHILD	W/2 CHILDREN	W/3+ CHILDREN
<b>Maximum 2025 EITC</b>	<b>\$649</b>	<b>\$4,328</b>	<b>\$7,152</b>	<b>\$8,046</b>
<b>Earned Income Base for max credit</b>	<b>\$8,490</b>	<b>\$12,730</b>	<b>\$17,880</b>	<b>\$17,880</b>
<b>MARRIED FILING JOINTLY</b>				
	NO CHILDREN	W/1 CHILD	W/2 CHILDREN	W/3+ CHILDREN
<b>Phaseout begins (MFJ)</b>	<b>\$17,730</b>	<b>\$30,470</b>	<b>\$30,470</b>	<b>\$30,470</b>
<b>AGI Max when Credit Ends (MFJ)</b>	<b>\$26,214</b>	<b>\$57,554</b>	<b>\$64,430</b>	<b>\$68,675</b>
<b>SINGLE, SURVIVING SPOUSE, HEAD OF HOUSEHOLD</b>				
	NO CHILDREN	W/1 CHILD	W/2 CHILDREN	W/3+ CHILDREN
<b>Phaseout begins (S, SS, HOH)</b>	<b>\$10,620</b>	<b>\$23,350</b>	<b>\$23,350</b>	<b>\$23,350</b>
<b>AGI Max when Credit Ends (S, SS, HOH)</b>	<b>\$19,104</b>	<b>\$50,434</b>	<b>\$57,310</b>	<b>\$61,555</b>

Disqualified investment income is now \$11,950 for 2025 (up from \$11,600 in 2024) This basically means no EITC is allowed if aggregate investment income exceeds this amount. (note, this will be adjusted to \$12,200 in 2026)

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# Child Tax Credit (CTC) and Other Dependent Credit

The expanded Child Tax Credit (CTC) was scheduled to sunset 12/31/25. The OBBBA has now made this credit permanent starting with 2025. Without this, it would have reduced back to the original \$1,000 per child after 2025.

### Effective for 2025:

- Increased to \$2,200
- Only Partially refundable up to \$1,700. (Note, this will not change, and will still be \$1,700 in 2026, but will be indexed after 2026)
- Need at least \$2,500 of earned income to be eligible

### MAGI Phase out for the credit

- › \$400,000 for Married Filing Jointly and Qualifying Surviving Spouse
- › \$200,00 for Single and all other filing statuses

A qualifying child for the purposes of the Child Tax Credit must be all of the following:

- A U.S. citizen or resident alien.
- An SSN holder.
- Claimed as the taxpayer's dependent on Form 1040 or 1040-SR.
- Under age 17 at the end of 2025.
- The taxpayer's:
  - › Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, a grandchild).
  - › Brother, sister, stepbrother, stepsister, or a descendant of any of them (for example a niece or nephew) for whom the taxpayer cared for as if they would their own child.

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# Child Tax Credit (CTC) and Other Dependent Credit

If a dependent does not qualify for the Child Tax Credit, they may qualify instead for the “Other Dependent Credit” but you cannot take both.

## Other Dependent Credit

A qualifying dependent for the Other Dependent Credit must be all of the following:

- A U.S. Citizen, U.S. national, or U.S. resident alien.
- An SSN, ITIN, or ATIN holder.
- Claimed as the taxpayer’s dependent on Form 1040 or 1040-SR.

The Credit amount available: \$500 (With \$0 refundable).

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# Premium Tax Credit (PTC)

This refundable credit reported on form 8962 is available for those that are enrolled in marketplace insurance and were not eligible for other qualifying insurance or employer sponsored plans providing minimum coverage.

Old laws made it only eligible for individuals with household incomes between 100% and 400% of FPL (Federal Poverty Line) amounts. The American Rescue Plan Act (ARPA) came along and removed the requirement of being below 400% just for 2020, but now that has been extended all the way through 12/31/25 by the Inflation Reduction Act (IRA).

In addition, the health care cost is temporarily limited to no more than 8.5% of family household income through 12/31/25 as well, with smaller percentages applicable if FPL amounts are under 400%.

Lastly, each year the repayment amounts have an annually adjusted limitation. For 2025 it is as follows:

INCOME % FPL	SINGLE TAXPAYERS	ALL OTHER TAXPAYERS
Under 200%	\$375	\$750
200% - 299%	\$975	\$1,950
300% - 399%	\$1,625	\$3,250
400% and Above	None	None

Keep in mind, this particular provision is subject to potential change, since nothing has been decided on its future beyond 12/31/25, we may very well still see a new bill addressing this provision in the near future

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# Other Changes to Tax Credits

## Adoption Credit

Maximum credit is \$17,280 for 2025 (Up from \$16,810 for 2024) Note: this will be increased to \$17,670 in 2026

This begins to phase out for taxpayers with modified AGI in excess of \$259,190 and is completely phased out at \$299,190 or more.

A note – if a special needs child has their adoption finalized in 2025, a taxpayer can claim the full credit of \$17,280, even if they don't have any expenses! However, a non-special needs child is limited in the credit amount to only the actual expenses incurred, not to exceed the \$17,280.

NEW – the OBBBA makes up to \$5,000 of the credit refundable for 2025 (indexed starting in 2026 - \$5,120)

### ***Alternatively for businesses, there is the Adoption Assistance Program:***

For the adoption of a child with special needs, the amount that can be excluded from the employee's gross income is \$17,280. This is for amounts paid or expenses incurred by the employer for qualified adoption expenses furnished pursuant to an adoption assistance program.

However, this amount excludable begins to phase out for taxpayers with Modified Adjusted Gross Income (MAGI) in excess of \$259,190, and is completely phased out with MAGI of \$299,190 or more.

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# Other Changes to Tax Credits

## Saver's Credit

Low-income individuals who make contributions to 401(k), 403(b), SIMPLE, SEP (Simplified Employee Pension), or certain 457 plans, as well as traditional and Roth IRAs, are entitled to claim a nonrefundable tax credit.

*Married Filing Jointly* – Credit for contributions up to \$4,000 at a rate for 2025 of:

- 50% with AGI up to \$47,500 (up from \$46,000 in 2024)
- 20% with AGI up to \$51,000 (up from \$50,000 in 2024)
- 10% with AGI up to \$79,000 (up from \$76,500 in 2024)

*Head of Household* – Credit for contributions up to \$2,000 at a rate for 2025 of:

- 50% with AGI up to \$35,625 (up from \$34,500 in 2024)
- 20% with AGI up to \$38,250 (up from \$37,500 in 2024)
- 10% with AGI up to \$59,250 (up from \$57,375 in 2024)

*All other filing statuses* – Credit for contributions up to \$2,000 at a rate for 2025 of:

- 50% with AGI up to \$23,750 (up from \$23,000 in 2024)
- 20% with AGI up to \$25,500 (up from \$25,000 in 2024)
- 10% with AGI up to \$39,500 (up from \$38,250 in 2024)

**Note:** the OBBBA made permanent the credit contributions by a designated beneficiary to their ABLE account. Additionally, (under SECURE 2.0) beginning with 2027 returns, the saver's credit will be replaced by a saver's match that will be deposited by the government directly into your retirement account. Starting with 2027, form 8880 will only be used to claim the saver's credit for ABLE account contributions, and a new separate form will be used to claim the savers match.

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# Business Credits

## §42 Low Income Housing Credit

This is for subsidizing the construction or acquisition of a housing project that has strict income limits for eligible tenants, and then adjusted annually for inflation.

For 2025 the state housing credit ceiling is the greater of \$3.00 multiplied by the state population, or \$3,455,000. (§42(h)(3)(C)(ii)) Rehabilitation expenditures are treated as a separate new building for 2025, the per low-income unit qualified basis amount is \$8,500 under §42(e)(3)(A)(ii)(II)

## §45L Credit for builders of new energy-efficient homes (Energy Efficient Home Credit – Form 8908)

Eligible contractors must meet requirements under §45L, and a home must meet all the required specifications. The credit amount is up to \$5,000, based on applicable program and requirements under which the home was build (like Energy Star or Zero Energy Ready Home)

Eligible contractors use this form to claim a credit for each qualified energy efficient home sold or leased to another person during the tax year for use as a residence. The credit is based on the energy saving requirements of the home and is part of the general business credit.

Note: OBBBA Sunset this credit effective 6/30/26

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# Business Credits

## §45R Small Employer Health Insurance Credit

For employers that have fewer than 25 full-time equivalent (FTE) employees, and pay under a specified amount of average wages

They offer a qualified health plan to employees through SHOP (Small Business Health Options Program) Marketplace (or qualify for a limited exception to this requirement).

They pay at least 50% of the cost of the employee only health care coverage for each employee (not counting family or dependent costs), and it is offered to all their full-time employees. (meaning it doesn't have to be offered to employees working <30 hours per week).

The dollar amount used to limit the credit in effect for 2025 is \$33,300.

The credit is 50% of premiums paid and included on Form 3800 as part of the General Business Credit.

*Note – it is only available for a 2-consecutive-tax-year-period starting with the first Form 8941 attached with line A checked “yes” and a positive amount on Line 12. It also can't exceed certain payroll taxes, and you must remember to reduce the premium expenses by the amount of any credit obtained.*

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### **§51(c) Work Opportunity Tax Credit (WOTC)**

This credit allows up to 40% of the first year of wages up to \$6,000 (or \$12,000 for long-term unemployed vets) for wages paid to specific targeted groups by an employer: <https://www.irs.gov/businesses/small-businesses-self-employed/work-opportunity-tax-credit>

The employer needs Form 8850, normally within 28 days of hire. The unused WOTC can carry back 1 year then forward 20 years (see Form 3800, General Business Credit for more detail) Initially expired, this is currently extended through 2025.

### **§45Q Carbon Capture Tax Credit**

Provides a performance-based tax credit for carbon management projects which capture carbon oxides (carbon dioxide and its precursor carbon monoxide) from eligible industry and power facilities, as well as directly from the atmosphere. Projects must begin physical work and construction no later than 12/31/2032 to qualify for the credit. The value of the credit was increased and rates for various uses were aligned with the OBBBA. This credit is claimed with Form 8933.

### **§45X Advanced Manufacturing Production Credit (Form 7207)**

This credit is for eligible components produced and sold during the tax year in their trade or business. Generally the credit is determined for each specific type of eligible component (like solar energy components, wind energy components, inverters, qualifying battery components, and applicable critical minerals).

### **§45V Clean Hydrogen Production Credit (Form 7210)**

This credit is designed to spur production facilities to seek and provide 'clean' hydrogen. This credit has now been changed by the OBBBA to disallowing it for construction projects that begin after 12/31/27 (five years earlier than the previous sunset date)

### **Renewable Electricity Production Credit (Form 8835)**

This form has been expanded from 1 to 3 pages, and used to claim the credit which is only allowed for the sale of electricity produced in the United States or U.S. territories from qualified energy resources at a qualified facility. This was to take affect for facilities placed in service starting 1/1/25, but has been modified by the OBBBA.

<https://www.irs.gov/forms-pubs/about-form-8835>

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# Clean Vehicle and Energy Credits

Clean Vehicle and Energy Credits changed with One Big Beautiful Bill Act (OBBBA) July 4, 2025:

Note: As of January 1, 2024, all Clean Vehicle Tax Credits must be initiated and approved at the time of sale. Buyers are advised to obtain a copy of the IRS's confirmation that a "time-of-sale" report was submitted successfully by the dealer.

## New Clean Vehicle Credit (Purchased after 2023) Form 8936 TERMINATED – Sunset 9/30/25

This non-refundable credit is available to individuals and businesses.

- o Purchased for your own use, not for resale.
- o Used primarily in the U.S.

In addition, modified adjusted gross income (AGI) cannot exceed:

- \$300,000 for married filing jointly.
- \$225,000 for heads of households.
- \$150,000 for all other filers.

(You can use your modified AGI from the year you take delivery OR from the year before, whichever is less. If below the threshold in 1 of the two years, you can claim the credit).

Amount of the Credit:

Qualified Vehicles placed in service January 1, 2023 to April 17, 2023:

- \$2,500 base amount.
- Plus: \$417 for a vehicle with at least 7 kilowatt hours (kwh) battery capacity.
- Plus: \$417 for each kilowatt hour of battery capacity beyond 5 kilowatt hours.
- Up to \$7,500 total credit (minimum credit \$3,751 (\$2,500 + 3x \$417) for vehicle with min 7 kwh battery capacity).

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# Clean Vehicle and Energy Credits

Qualified Vehicles placed in service April 18, 2023 and after:

*Will have to meet all the same criteria listed above, plus meet new critical mineral and battery component requirements for a credit up to:*

- \$3,750 if vehicle meets critical minerals requirement only.
- \$3,750 if vehicle meets battery components requirement only.
- \$7,500 if vehicle meets both.

A vehicle that doesn't meet EITHER requirement will not be eligible for any credit.

### Purchase Price Limits

Beginning in 2023, in order to qualify, the MSRP cannot exceed \$55,000 for cars or \$80,000 if a van, truck, or SUV.

### Qualified Vehicles

There are more rules that determine if a vehicle is qualified, however, there is a tool to assist in this process found at: <https://fueleconomy.gov/feg/tax2023.shtml>

More info: <https://www.irs.gov/credits-deductions/credits-for-new-clean-vehicles-purchased-in-2023-or-after>

Checklist: <https://www.irs.gov/pub/irs-pdf/p5866.pdf>

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# Clean Vehicle and Energy Credits

## Used Clean Vehicle Credit (Purchased after 2023) Form 8936

### TERMINATED – Sunset 9/30/25

*(only available to individuals, not businesses)*

Amount of the Credit – 30% of the sale price up to a maximum credit of \$4,000.

This non-refundable credit is available if you buy a qualified used electric vehicle (EV) or fuel cell vehicle (FCV) from a licensed dealer for \$25,000 or less.

- o Purchased for your own use, not for resale
- o Not be the original owner
- o Not be claimed as a dependent on another person's return
- o Not have claimed another used clean vehicle credit in the 3 years before the purchase date

In addition, modified adjusted gross income (AGI) cannot exceed:

- \$150,000 for married filing jointly or a surviving spouse
- \$112,500 for heads of households
- \$75,000 for all other filers

(You can use your modified AGI from the year you take delivery OR from the year before, whichever is less. If below the threshold in 1 of the two years, you can claim the credit).

Qualified Vehicles and Sales – must meet all of these requirements:

- Have a sale price of \$25,000 or less.
- Have a model year at least 2 years earlier than the calendar year you buy it (ex: if purchased in 2025, needs a model year 2023 or older)
- Not have already been transferred after 8/16/22 to a qualified buyer
- Gross vehicle weight rating less than 14,000 pounds

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# Clean Vehicle and Energy Credits

- Be an eligible FCV or plug-in EV with battery capacity of at least 7 kilowatt hours
- Be for use primarily in the United States

There are more rules that determine if a vehicle is qualified, however, there is a tool to assist in this process found at: <https://www.fueleconomy.gov/feg/taxused.shtml>

More info: <https://www.irs.gov/credits-deductions/used-clean-vehicle-credit>

Checklist: <https://www.irs.gov/pub/irs-pdf/p5866a.pdf>

See new updates to FAQ's found on Fact Sheet 2024-26 updated July 2024: <https://www.irs.gov/pub/taxpros/fs-2024-26.pdf>

*NOTE: Starting January 1, 2024 buyers of new/used clean vehicles that qualify can transfer their expected tax credit to a dealer registered with the IRS and the dealer can provide the credit to the buyer in the form of a payment, allowing the buyer to use full credit at the time of sale. This would then be reconciled by the buyer on Form 8936 Schedule A on their tax return.*

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# Clean Vehicle and Energy Credits

## Special Considerations for Dealers Reports:

For vehicles placed in service 1/1/24 and after, dealerships are required to submit seller reports electronically to the IRS. The IRS's acceptance of this seller report means a Qualified Manufacturer has submitted the VIN listed in the seller report to the IRS as an eligible vehicle.

For previously owned clean vehicles, sellers will also provide the sale price (which much be \$25,000 or less) and review vehicle history reports in making attestations regarding the vehicle's eligibility.

To claim the tax credits for either new or previously owned clean vehicles, the buyer much provide the seller with their name, Social Security Number, and valid identification. This information is necessary for the seller to successfully submit a seller report to the IRS.

Eligible buyers (and their tax practitioners) can rely on a seller's report that a seller has submitted electronically to the IRS, that the IRS has accepted, and that the seller has then provided to the buyer as confirmation the vehicle is eligible. It is advised to obtain a copy of the IRS's confirmation of this successful report transmittal by the dealer.

## **§45W Commercial Clean Vehicle Credit – Form 8936 - A TERMINATED – Sunset 9/30/25**

The credit is the lesser of 15% of your basis in the vehicle (or 30% if not powered by gas or diesel), OR the incremental cost of the vehicle.

The maximum credit is \$7,500 for qualified vehicles with gross vehicle weight ratings (GVWRs) of under 14,000 OR \$40,000 credit for all other vehicles.

No credit is allowed unless the VIN (Vehicle Identification Number) is included on the tax return.

There is no limit on the number of credits your business can claim. These credits are non-refundable though, so you can't get back more on the credit than you owe in taxes. However, the §45W credit can be carried over as a general business credit, so it isn't entirely lost if not used in that year.

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# Clean Vehicle and Energy Credits

To qualify, the vehicle must be made by a qualified manufacturer, used in your business primarily in the United States (and not for resale) and not been allowed a credit already under sections 30D or 45W.

Additionally, it must be treated as a motor vehicle for purposes of title II or the Clean Air Act and manufactured primarily for use on public roads. It must be a plug-in electric vehicle with 7kwh if the GVWR is <14,000 pounds, OR 15kwh if the GVWR is >14,000 pounds, (or a fuel cell motor vehicle (IRC 30B(b)(3)(A)&(B)).

Pub 5724-H - <https://www.irs.gov/pub/irs-pdf/p5724h.pdf>

## Energy Efficient Home Improvement Credit (Form 5695)

### TERMINATED – Sunset 12/31/25

(Formerly known as the Nonbusiness Energy Property Credit)

These expenses may qualify if they meet requirements detailed on [energy.gov](https://www.energy.gov) and are used for a primary residence or second home (also must be used as a residence).

- o Exterior doors, windows, skylights and insulation materials
- o Central air conditioners, water heaters, furnaces, boilers and heat pumps
- o Biomass stoves and boilers
- o Home energy audits

The amount of non-refundable credit you can take is a percentage of the total improvement expenses in the year of installation:

2022: 30%, up to a lifetime maximum of \$500.

2023-2025: (was 2032 before OBBBA) : 30%, up to a maximum of \$1,200 or \$2,000 (every year), with no lifetime limit.

- Total energy property costs - of that \$1,200 annual maximum, specific limits on doors (\$250 per door up to \$500 total), windows (\$600), and home energy audits (\$150)

## What You Need to Know for Tax Season 2026

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# Clean Vehicle and Energy Credits

- \$2,000 maximum annually If a qualified heat pump, biomass stove or biomass boiler

Also keep in mind – if property is solely used for business purposes, you can't claim the credit. If used partially for business, if that business use is up to only 20% it is the full credit, but if business use is over 20%, the credit will be based on the share of business expenses allocable to only the non-business use.

<https://www.irs.gov/credits-deductions/energy-efficient-home-improvement-credit>

Note: Beginning in 2025, no credit will be allowed unless the manufacturer of any qualifying item creates a product identification number for the item, and the person claiming the credit includes the number on their tax return.

## **Residential Clean Energy Credit (Form 5695) - TERMINATED – Sunset 12/31/25**

(Formerly known as the Residential Energy Efficient Property Credit)

These expenses may qualify if they meet requirements detailed on [energy.gov](https://www.energy.gov) and are used for a primary residence or second home (also must be used as a residence).

- o Solar, wind, and geothermal power generation
- o Solar water heaters
- o Fuel cells \*
- o Battery storage

\*Note – Fuel Cell property is limited to \$500 for each half kilowatt of capacity (unless more than one person lives in the home, then the combined credit for all residents can't exceed \$1,667 for each half kilowatt of fuel cell capacity).

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# Clean Vehicle and Energy Credits

The amount of non-refundable credit you can take is a percentage of the total improvement expenses in the year of installation with NO annual maximum or lifetime limit:

- › 2022-2025: (was 2032 before OBBBA) 30%,
- › 2033: 0%, (was 26% before OBBBA)
- › 2034: 0%, (Was 22% before OBBBA)

Also keep in mind – if property is solely used for business purposes, you can't claim the credit. If used partially for business, if that business use is up to only 20% it is the full credit, but if business use is over 20%, the credit will be based on the share of business expenses allocable to only the non-business use.

<https://www.irs.gov/credits-deductions/residential-clean-energy-credit>

## **Alternative Fuel Vehicle Refueling Property Credit §30C - TERMINATED – Sunset 6/30/26**

If you install qualified vehicle refueling and recharging property in your home or business, you may qualify:

- o Must be used to store or dispense clean-burning fuel
- o Placed in service during the tax year
- o Original use of the property began with the taxpayer
- o Used primarily inside the United States
- o Installed on property used as a main home, or business or investment use property

Beginning January 1, 2023 was expanded to include:

- › Charging stations for 2- and 3-wheeled vehicles (for use on public roads)
- › Bidirectional charging equipment (vehicle-to-grid or V2G)

However, starting in 2023 also limited to property placed in service within low-income communities or non-urban census tracts.

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# Clean Vehicle and Energy Credits

Amount of credit (starting 1/1/23):

- › Qualified property subject to depreciation 6% of the cost (max credit \$100,000 for each single item of property)
- › Businesses meeting prevailing wage and apprenticeship requirements may be eligible for up to 30% of the cost (with the same \$100,000) as a general business credit
- › Qualified property NOT subject to depreciation 30% of the cost with a maximum of \$1,000 per item

(Prior to 1/1/23 was 30% of cost with max credit of \$30,000 for depreciable and \$1,000 for all other property).

More info: <https://www.irs.gov/credits-deductions/alternative-fuel-vehicle-refueling-property-credit>

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# Alternative Minimum Tax

Exemption levels for 2025 are as follows:

- \$137,000 for Married Filing Jointly and Qualified Surviving Spouse
- \$88,100 for Single and Head of Household
- \$68,500 for Married Filing Separate
- \$30,700 for Estates and Trusts

These alternative minimum tax exemption levels phase out, in 2025, from:

- \$1,252,700 to \$1,800,700 for Married Filing Jointly and Qualified Surviving Spouse
- \$626,350 to \$978,750 for Single and Head of Household
- \$626,350 to \$900,350 for Married Filing Separate
- \$102,500 to \$225,300 for Estates and Trusts

The AMT rate is 28% for alternative minimum taxable income applies above \$119,550 for Married Filing Separately or \$239,100 for all other filing statuses.

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# Changes to Tax Deductions

## Foreign Earned Income Exclusion

The inflation adjusted foreign earned income exclusion is set at \$130,000 for 2025

## Interest on Education Loan

For 2025, the \$2,500 maximum deduction for interest paid on qualified education loans begins to phase out when Modified Adjusted Gross Income (MAGI):

- Exceeds \$85,000 (or \$170,000 for Married Filing Joint) and completely phases out when:
  - › Exceeds \$100,000 (or \$200,000 for Married Filing Joint)

## Income from US Savings Bonds used for Qualified Higher Education Expenses

The exclusion under §135 regarding income from US savings bonds for taxpayers that pay qualified higher education expenses begins to phase out when Modified Adjusted Gross Income (MAGI):

- Exceeds \$99,500 (or \$149,250 for Married Filing Joint) and completely phases out when:
- Exceeds \$114,500 (or \$179,250 for Married Filing Joint)

## Educator Expenses

Limit of \$300 per year per educator for qualified expenses for 2025 (\$350 for 2026)

Expanded by OBBBA to allow expenses to be itemized (without 2% AGI limitation) and expanded to include interscholastic sports coaches & administrators and their supplies

This means for educators that have more than \$350 of expenses, they can start tracking them and begin to itemize them on the Schedule A starting in 2026

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# Changes to Tax Deductions

## Charitable Deductions – ‘Above the Line’

- COVID created an above-the-line charitable deduction for non-itemizers
- OBBBA reinstates this deduction
- Limit of \$1,000 (\$2,000 MFJ)
- Effective after 12/31/25

## Charitable Deductions – Itemized

- New limitation was added with OBBBA
- Contributions must exceed 0.5% of the taxpayer’s contribution base to be deductible
- Also permanently increases the cash contribution to 60% (remember it was 50% before TCJA)

(These changes are effective for tax years beginning after 12/31/25 though)

## SALT (State and Local Tax)

Deduction cap of \$10,000 per year of all state and local tax still in place however, the OBBBA increases this temporarily:

- 2025 - \$40,000
- 2026 - \$40,400
- 2027 - \$40,804
- 2028 - \$41,212
- 2029+ - \$10,000

Under these new limits, it will be reduced by: 30% of modified AGI over \$500,000

(But the deduction will not be reduced below \$10,000)

This income-based limitation applies starting in 2025

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# Changes to Tax Deductions

## Mortgage Interest

- Previous modifications are now made permanent
- TCJA – reduced loan principal for deductible interest from \$1,000,000 to \$750,000
- TCJA – eliminated the deductibility of mortgage interest not attributable to acquisition indebtedness (like a HELOC used to pay down bills or credit cards)
  - OBBBA makes these changes permanent
  - Also – restores the deductibility of mortgage insurance premiums

## Personal Casualty Losses

- TCJA eliminated most casualty loss deductions (except losses in presidentially declared disaster areas)
- OBBBA generally makes these TCJA modifications permanent
- However, it will now allow state governors to declare disaster areas starting in 2026

## Moving Expenses – Permanently repealed

- TCJA suspended the deduction for most moving expenses
  - › Armed forces were excluded for example
- OBBBA permanently extends these TCJA modifications

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# Changes to Tax Deductions

## Wagering Losses – Permanently Repealed

- TCJA suspended the deduction for wagering losses (basically limited the losses to the extent of the gains)
- OBBBA permanently extends this AND further limits deductible losses
  - › Losses will be limited to 90% of the gains starting in 2026

## Miscellaneous Itemized Deduction – Permanently Repealed

- TCJA suspended the deduction for miscellaneous itemized deductions
- OBBBA made this now permanent
- (Included such things as investment management fees and tax prep fees among others)

## PEASE Limitation

- TCJA suspended the overall limitation on itemized deductions (PEASE limitation)
- OBBBA re-introduces it and modifies the limitation (starting in 2026)

New formula:

$$\text{Reduction} = \frac{2}{37} \times \text{the lessor of} \left[ \begin{array}{l} \text{Total Itemized Deductions} \\ \text{Total taxable income, plus} \\ \text{itemized deductions, subject} \\ \text{to the 37\% bracket} \end{array} \right]$$

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# Changes to Tax Deductions

## Standard Mileage Rates

The 2025 IRS mileage rates are:

- 70 cents per mile for business purposes (up from 67 cents per mile)
- 21 cents per mile for medical and moving purposes (same as 2024)
- 14 cents per mile for charitable purposes (same as 2024)

# Business Deductions

## Depreciation

### §179 and Depreciation

§179 expensing limitation is \$1 million annually and the phase-out threshold is at \$2.5 million for property placed in service after 12/31/17.

The cost of any sport utility vehicle that may be taken into account under §179 cannot exceed \$31,300 (or \$32,000 for 2026)

Note: this is adjusted annually, so the Expense limitations are \$2,500,000 (previously was \$1,250,000 for 2025 and \$2,560,000 for 2026 and the phase-out threshold is \$4,000,000 (Previously was \$3,130,000 for 2025 and \$4,090,000 for 2026).

This larger increase for 2025 compared to previous years was added with the OBBBA.

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# Business Deductions

## Bonus Depreciation

Bonus depreciation is taken after any §179 expense deduction and before regular depreciation

The 100% bonus depreciation amount was only available through 12/31/22. Beginning in 2023, this began phasing out (at a rate of 20% per year) so for 2023 it was only 80% bonus depreciation but that went down to 60% for 2024, and was going to fall to just 40% for 2025. (unless it is special property or certain aircraft, which is slightly different at 100% for 2023 and then 80% beginning in 2024, and 60% for 2025)

However – the OBBBA reinstated the 100% bonus depreciation – and made it permanent. This only applies to property placed in service 1/20/25 and after. Furthermore, in 2025, you can still elect to apply the 40% first year instead (just like the old rules would have allowed)

Note, there are numerous other date/effective date changes for specialized industries

## §199A Qualified Business Income Deduction

OBBBA made this deduction permanent. Also increased the phase-out range of the SSTB/Wage & Capital limitations to \$75,000 (was \$50,000) or \$150,000 for MFJ (was \$100,000) (However, this increased phase-out range applies for 2026)

There is now a minimum deduction of \$400 as well. This applies for taxpayers with at least \$1,000 of QBI from one or more active trades or businesses in which they materially participate. So if \$400 exceeds regularly computed QBID - \$400 will apply instead (note, this minimum \$400 deduction applies in 2026 & after)

Threshold amounts are adjusted annually, so for 2025 they are as follows:

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# Business Deductions

2025 §199A QBI DEDUCTION	THRESHOLD AMOUNT	PHASE-IN RANGE AMOUNT
Married Filing Joint	\$394,600	\$494,600
Married Filing Separate	\$197,300	\$247,300
All Other Filing Statuses	\$197,300	\$247,300

### §179D Commercial Buildings energy efficient tax deduction (Form 7205) TERMINATED

#### – Sunset 6/30/26

This primarily enables building owners to claim a tax deduction for installing qualifying systems and buildings. The energy standards were updated and the amounts indexed for inflation after 2020.

For 2025:

- §179D(b)(2) is \$.58 increased (but not over \$1.16) by \$.02 for each percentage the total annual energy & power costs are certified to be reduced by a percentage greater than 25%.
- §179D(b)(3) is \$2.90 increased (but not over \$5.81) by \$.12 for each percentage the total annual energy & power costs are certified to be reduced by a percentage greater than 25%

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# Increased Allowances: Fringe Benefits, Medical Spending Accounts, and Long-Term Care Premiums and Health Reimbursements

## Fringe Benefits

The monthly limit for qualified transportation and qualified parking fringe benefits is set at \$325 for 2025 (up from \$315 in 2024)

## Medical Spending Accounts

The maximum salary reduction for contributions to health flexible spending accounts (FSAs) is increased to \$3,300 for 2025 (up from \$3,200 in 2024). The maximum carryover of unused amounts for cafeteria plans is \$660 for 2025 (up from \$640 in 2024).

The thresholds and ceilings for participants in medical savings accounts (MSAs) are increased to:

- \$2,850 to \$4,300 with a maximum out-of-pocket expense of \$5,700 for self-only coverage for 2025
- \$5,700 to \$8,550 with a maximum out-of-pocket expense of \$10,500 for family coverage for 2025

The thresholds and ceilings for participants in health savings accounts (HSAs) are from:

- \$4,300\* Max annual contribution with \$1,650 minimum deductible and max out-of-pocket expense of \$8,300 for self-coverage for 2025
- \$8,550\* Max annual contribution with \$3,300 minimum deductible and max out-of-pocket expense of \$16,600 for family coverage for 2025

\* Additional if over age 55-65 \$1,000.

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# Increased Allowances: Fringe Benefits, Medical Spending Accounts, and Long-Term Care Premiums and Health Reimbursements

The maximum amount that may be available for participants in health reimbursement arrangements (HRAs) are:

- \$2,150 for 2025

### Qualified Small Employer Health Reimbursement:

For taxable years beginning in 2025, to qualify under §9831(d) the arrangement must provide the total amount of payments and reimbursements for any year cannot exceed \$6,350 (or \$12,800 for family coverage)

### Eligible Long-Term Care Premiums

The limitations for eligible long-term care premiums included in “medical care” deductions are as follows for 2025:

AGE BEFORE THE CLOSE OF TAXABLE YEAR:	LIMITATION ON PREMIUMS
40 or less	\$480
>40 - 50	\$900
>50 - 60	\$1,800
>60 - 70	\$4,810
>70	\$6,020

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# Retirement Plan Changes

Contribution limits have been on the move and changed in 2024, 2025 and yet again for 2026. You may find this information to be helpful in planning with clients for their 2026 needs

Employee contribution limits for workplace retirement plans increased in 2025 to \$23,500.

RETIREMENT PLAN TYPE	2024 CONTRIBUTION LIMIT	2025 CONTRIBUTION LIMIT	2026 CONTRIBUTION LIMIT
401(k)	\$23,000	\$23,500	\$24,500
403(b)	\$23,000	\$23,500	\$24,500
457 (most)	\$23,000	\$23,500	\$24,500
Thrift Savings Plan	\$23,000	\$23,500	\$24,500
SIMPLE	\$16,000	\$16,500	\$17,000

**‘Catch-up’ Limits:** For those who are 50 years old or older, for 2025 the catch-up contribution limit is still \$8,000 (\$7,000 if under 50) (except SIMPLE plans are still \$3,500 for this ‘catch-up’ limit).

*Note: With SECURE 2.0, Beginning in 2025, for those participants that are 60-63 there will be a ‘second’ or “super” catch up limit increase of \$10,000 (\$5,000 SIMPLE) and then indexed for inflation beginning in 2025. Therefore, this amount will actually be \$11,250 in additional catch up contribution (\$5,250 SIMPLE) for 2025. Keep in mind – this is the total catch-up contribution, not in ADDITION to the \$8,000/\$3,500.*

*Lastly, SECURE 2.0 (originally starting 2024, but Notice 2023-62 delayed this to 2026) requires all catch-up contributions to be subject to ROTH (after-tax) rules, rather than only where allowed by the plan, except for participants whose prior year wages didn’t exceed \$145,000 (indexed for inflation). The high-income taxpayer will lose the catch-up contribution in 2026 due to this rule.*

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# Retirement Plan Changes

## Individual Retirement Accounts (IRAs)

The deductible amount for IRA contributions is still \$7,000 for 2025. People ages 50 and older can contribute an additional \$1,000 “catch-up” contribution amount each year in addition. Starting after 2025 this will be indexed to inflation as well.

The modified AGI phaseout levels for the deduction are adjusted upward. If either a taxpayer or their spouse is covered by a workplace retirement plan during the year, the deduction may be reduced or phased out until it is eliminated.

The phase ranges for 2025 are as follows:

- If an individual is an active participant in an employer retirement plan, the deduction phaseout for AGI is \$79,000-\$89,000 for Single and Head of Household, and \$126,000-\$146,000 for Married Filing Jointly or Qualifying Surviving Spouse
- For an IRA contributor that is not an active participant in another plan but whose spouse is an active contributor, the phaseout ranges from \$236,000 to \$246,000
- For a married active contributor filing a separate return, there is no adjustment and the phaseout range will remain \$0 to \$10,000

Note: These phaseouts do NOT apply if neither the taxpayer nor their spouse is covered by a workplace retirement plan.

## Roth IRAs

For 2025, the phaseout ranges for Roth IRA contributions are \$150,000 to \$165,000 for Single and Head of Household and \$236,000 to \$246,000 for joint returns. The Roth IRA phaseout for a married individual filing a separate return remains at \$0 to \$10,000 (unless you didn't live with your spouse at all – then would be the same as single or Head of Household)

## §529 Plan Rollovers

Continuing from 2024, unused §529 account savings may be directly rolled over into a ROTH IRA without penalty, provided the rollover amounts fall within annual ROTH IRA contributions limits and the §529 is at least 15 years old, with a few other restrictions

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# Retirement Plan Changes

SECURE 2.0 made numerous changes to retirement rules, with some of those changes that went into effect back in 2023, some in 2024, and 2025, and some that will in the future. Some of these changes include:

## **Long-term, part-time workers qualify easier**

Under old law, employees with at least 1,000 hours of service in a 12-month period or 500 service hours in a three-consecutive-year period must be eligible to participate in the employer's qualified plan. SECURE 2.0 reduces that three-year rule to just two years for plan years beginning after December 31, 2024.

## **New Emergency Savings Accounts**

Effective for plan years beginning after December 31, 2023, employers can offer short-term emergency savings accounts ("ESAs") to non-highly compensated employees. ESAs must be funded with Roth contributions. These contributions are treated as elective deferrals for matching purposes and capped at \$2,500 – unless the employer specifies a lower amount. Participants must be allowed to take at least one withdrawal per month, and the first four withdrawals per year cannot be subject to fees.

## **New deferral deadline and also sole proprietors and single-member LLC changes**

Effective for plan years beginning after December 29, 2022, an employer may establish a new 401(k) plan after the end of the taxable year (but before their tax filing date) and treat the plan as having been established on the last day of the taxable year instead. Such plans can also be funded by employer contributions up to the employer's tax filing date. It also allows these plans (when sponsored by sole proprietors or single-member LLCs) to receive employee contributions up to the date of the employee's tax return filing date for the initial year if the owner is the only employee.

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# Retirement Plan Changes

## Required Minimum Distributions

- o Starting January 1, 2023 RMD starting age was increased from 72 to 73.
- o Then starting in 2033 the RMD starting age will again increase to 75 years.
- o After December 29, 2022, the penalty for failing to take a RMD was reduced from 50% to 25%, and if the failure is corrected timely, this 25% is reduced further to 10% instead.
- o Starting in 2024, The pre-death RMD requirement for Roth accounts is eliminated, and a surviving spouse can elected to be treated as the deceased employee for RMD purposes.

## Qualified Charitable Distribution (QCD)

Continuing since 2024, the annual qualified charitable distribution (QCD) limit of \$100,000 will be indexed for inflation. The 2025 limit is \$108,000 due to this inflation adjustment.

## Small balance cash-outs

Under current law, an employer may transfer the 401(d) account of former employees to an IRA if their balance is no more than \$5,000, which is known as an automatic rollover. After December 31, 2023, this is increased to a \$7,000 limit.

SECURE 2.0 also permits the transfer of IRAs into the participant's new employer plan (unless the participant affirmatively elects otherwise).

## Hardship distribution certification

Under certain circumstances, employees are now permitted to self-certify they had an event that constitutes a hardship for purposes of taking a hardship withdrawal effective after December 29, 2022.

## Disaster Distributions

After January 26, 2021, permanent rules relating to the use of retirement funds allows up to \$22,000 to be distributed from 401(k) plans for effected individuals.

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# Retirement Plan Changes

## Emergency distributions

Generally, an additional 10% penalty tax applies to early distributions from a 401(k) plan unless an exception applies. Effective starting January 1, 2024, an exception will now apply for certain distributions used for emergency expenses, where there are unforeseeable or immediate financial needs relating to personal or family emergency expenses.

Note: Only one distribution may be made every 3 years (or one per year, if the distribution is repaid within 3 years).

## Other Penalty-free early distributions

SECURE 2.0 also added other exceptions to the 10% additional penalty tax that generally applies to early distributions:

- Effective January 1, 2024, Penalty free distributions will be allowed for domestic abuse victims.
- Effective after December 29, 2022, Penalty free distributions will be allowed for individuals with a terminal illness.
- Effective after December 29, 2022, penalty free distributions up to \$2,500 per year will be allowed for the payment of premiums for certain specified long term care insurance contracts.

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# Retirement Plan Changes

## Mandatory automatic enrollment

Effective for plan years beginning after 12/31/24, new 401(k) and 403(b) plans must automatically enroll employees when eligible. Automatic deferrals start at between 3% and 10% of compensation, increasing by 1% each year, to a maximum of at least 10%, but no more than 15% of compensation.

## Employer Contributions:

### Matching of student loan payments

Starting January 1, 2024, employers can start making matching contributions under a 401(k), 403(b), or SIMPLE IRA for certain qualified student loan payments.

### Roth Matching and nonelective contributions

Under previous law, employers must contribute matching and nonelective contributions on a pre-tax basis. After December 29, 2022, participants can designate matching or nonelective contributions as Roth contributions (when their plan allows).

## De minimus incentives:

Employers may offer de minimus financial incentives, such as low-dollar gift cards, to boost participation in retirement plans. However, these financial incentives cannot be purchased with plan assets.

## Database for missing participants and funds

SECURE 2.0 created a national online searchable database to enable employers to locate “missing” plan participants and plan individuals to locate retirement funds.

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# Gift and Estate Taxation

Lifetime gift, estate, and generation-skipping transfer tax exemption:

- \$13,990,000 for 2025 (up from \$13,610,000 for 2024)
- Annual gift tax exclusion for 2025 is increased to \$19,000 (up from \$18,000)
  - › Will stay at \$19,000 for 2026

Personal Exemption Amounts: (note – this exemption is not allowed in final year)

- Estate \$600
- Simple Trust \$300
- Complex Trust \$100

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# 1099-K Forms

With many changes in the past few years around the reporting threshold, the OBBBA brought one last set of changes to this rule, and new guidance was issued October 23, 2025.

The OBBBA effective reinstated the reporting threshold retroactively to the one in effect prior to ARPA (American Rescue Plan Act of 2021). This means third party settlement organizations are not required to file Form 1099-K unless the gross amount of reportable payment transactions to a payee exceeds \$20,000 and the number of transactions exceeds 200.

For more information:

<https://www.irs.gov/newsroom/irs-issues-faqs-on-form-1099-k-threshold-under-the-one-big-beautiful-bill-dollar-limit-reverts-to-20000>

Also: <https://www.irs.gov/pub/taxpros/fs-2025-08.pdf>

There are recommendations and guidance from the IRS on what to do if a 1099-K form is received anyway, how these should be reported on the 1040 on the IRS site, for selling personal items to reporting incorrectly issued forms, and a variety of other answers at:

<https://www.irs.gov/businesses/understanding-your-form-1099-k>

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# 1099-K Forms

## 1099 Changes

Current law requires reporting for payments for services and persons engaged in a trade or business...

- Exceeding \$600
- With the OBBBA this increased this reporting threshold to \$2,000 now, and further indexes it for inflation.

This is to be effective for 2026 payments that will be reported starting in the beginning of the 2027 year



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