

TaxUpdate

2025 YEAR END NEWSLETTER



Tax Centers of America, Inc

Personal - Business - Corporations

10316 Bridgeport Way SW

Lakewood, WA 98499

253-581-4533

info@taxcentersinc.net

www.Taxcentersinc.net

What's New in 2025

There's plenty of tax changes this year with the passage of the One Big Beautiful Bill Act (OBBA) that was signed into law this summer. Here's a look at several key areas that are new in 2025.

No tax on tips. Through 2028, you can deduct up to \$25,000 of qualified tips from your federal taxable income. This phases out when your income exceeds \$150,000 (\$300,000 for married couples).

No tax on overtime. Through 2028, you can deduct up to \$12,500 (\$25,000 for joint returns) for qualified overtime pay. This is also subject to phaseout above \$150,000 (\$300,000 for married couples).

Child tax credit increases to \$2,200 per qualifying child, up from \$2,000.

Seniors get an extra \$6,000 standard deduction through 2028. This deduction phases out between \$75,000 and \$175,000 for single taxpayers (\$150,000 and \$250,000 for married couples).

Increased state and local tax deduction. Up to \$40,000 of state and local taxes can be deducted if itemizing.

Electric vehicle tax credit expires on September 30, 2025. A tax credit of up to \$7,500 for buying or leasing new electric vehicles will end on September 30th.



New cryptocurrency reporting. Brokers of digital assets must now report sales and exchanges of digital assets to the IRS starting in 2025. This will be similar to the reporting of traditional security transactions like stocks, bonds and mutual funds.

Higher catch-up contributions for select ages. If you are age 60 thru 63, there is a special catch-up contribution this year. The normal catch-up contribution for those 50 and over in a 401(k) is \$7,500, but it moves to \$11,250 if you are age 60 to 63. With SIMPLE plans the normal catch-up is \$3,500, but it moves to \$5,250 if you are age 60 to 63.

Protect Your PII

Personally Identifiable Information, or PII, is information that identifies you or relates specifically to you. This includes your name, address, phone number, Social Security number, and financial data such as credit card and bank account numbers.

Federal agencies are now mandating that organizations who have PII of their clients and customers have a security plan to outline how they plan to protect this information. It's also a good idea for you, too. Here are some tips.

- **Your tax information is key PII.** As you can imagine, your tax information is loaded with data that's a target for thieves. So be aware of how you store this information. Also let vendors know you don't want your Social Security number exposed on any mailed forms like W-2s and 1099s.
- **Know who has your PII.** Know who has access to your personal data, and make intentional choices about who truly needs it. Close unused accounts and ask them to delete their records as soon as possible. Remember, this is not just your bank or health insurance. It includes any vendor that stores your credit card number for future transactions or anyone you autopay with a link to your bank account.
- **Be watchful.** As part of the federal requirements, most suspected security breach incidents are to be reported to you on a timely basis. But despite these requirements, this does not always happen. So be diligent, and take advantage of the free annual credit report from each of the major credit reporting agencies to double check for any suspicious activity.

Income Brackets for 2025 Tax Rates

Tax Rate	Single	Married Filing Joint/Widow	Head of Household	Married Filing Separate
10%	\$1 – 11,925	\$1 – 23,850	\$1 – 17,000	\$1 – 11,925
12%	11,926 – 48,475	23,851 – 96,950	17,001 – 64,850	11,926 – 48,475
22%	48,476 – 103,350	96,951 – 206,700	64,851 – 103,350	48,476 – 103,350
24%	103,351 – 197,300	206,701 – 394,600	103,351 – 197,300	103,351 – 197,300
32%	197,301 – 250,525	394,601 – 501,050	197,301 – 250,500	197,301 – 250,525
35%	250,526 – 626,350	501,051 – 751,600	250,501 – 626,350	250,526 – 375,800
37%	Over \$626,350	Over \$751,600	Over \$626,350	Over \$375,800

15 Year-End Tax Tips

At the end of each year there are a number of things to consider that may have a positive impact on your tax obligation. Here is a list of fifteen ideas that may be worth a quick review.

- 1 Make last minute charitable donations.** Pay attention to your itemized deduction limit to ensure your deduction will count.
- 2 Review and maximize use of the \$19,000 annual gift giving limit.**
- 3 Review your investment portfolio for capital gains and loss planning.**
- 4 Use your annual \$3,000 net capital loss limit to lower ordinary income if appropriate.**
- 5 Maximize the kiddie tax threshold rules** (\$1,350 of unearned income is taxed at your child's lower tax rate).
- 6 Consider fully funding retirement accounts** with your annual contributions.
- 7 Identify any potential household employees.**
- 8 Consider donating appreciated stock** owned one year or longer.
- 9 Review retirement accounts** for required minimum distributions (RMD).
- 10 Review medical and dependent care funding accounts** to ensure you do not lose your contributions that expire.
- 11 Consider retirement plan rollover options** into Roth IRAs.
- 12 Estimate your tax liability and make any estimated tax payments.**
- 13 Create a list of expected 1099s** and other tax forms you will be receiving.
- 14 Review your W-2 withholdings** and file any changes with your employer for the upcoming year.
- 15 Begin organizing your tax records.** Should you have any questions about these ideas, ask for help prior to taking action. In many cases, the requirements and documentation needed are important to ensure you receive the full tax savings benefit.

Tax Term You Need to Know: Contemporaneous

Contemporaneous means that the records used to support a claim on your tax return are created at the same time as your claimed deduction. In other words, if you realize you forgot to get a receipt for something and try to get one at a later date, the IRS may disallow an otherwise valid deduction. Areas where the term contemporaneous is especially important include charitable contributions; business deductions for expenses and capital purchases;

mileage logs; tip records; gambling losses; & business travel expenses.

To meet the IRS definition of contemporaneous, the receipt or acknowledgement must be received the earlier of either when you file your tax return OR the due date (including extensions) of your tax return. This is particularly true with charitable contributions. So if you want to play it safe, do not file your tax return until all documentation is in hand.

Key Retirement Plan Limits

Retirement Plan	2025	2024	Change	Age 50 or older catch-up
401(k), 403(b), 457 plans	\$23,500	\$23,000	+\$500	Add \$7,500*
IRA: Traditional	\$7,000	\$7,000	-	Add \$1,000
IRA: SIMPLE ^a	\$16,500	\$16,000	+\$500	Add \$3,500**
IRA: Roth	\$7,000	\$7,000	-	Add \$1,000

* For 2025, a higher catch-up contribution limit of \$11,250 applies for taxpayers ages 60 to 63.

** For 2025, a higher catch-up contribution limit of \$5,250 applies for taxpayers ages 60 to 63.

^a Employees of eligible businesses can contribute up to \$17,600, with an age 50+ catch-up limit of \$3,850.

Taxable or Not Taxable?

Some of these items may surprise you

There are a number of areas in the tax code that cause confusion as to the taxability of money received. Here are some of the most common areas of confusion.

- Unemployment compensation.** This is typically required to be reported as taxable income. So you could be facing a tax surprise if you received unemployment income this past year.
- Free services.** Receiving free services is almost always taxable as ordinary income under IRS barter regulations. Report the fair market value of services received as income on your tax return.
- Jury duty pay.** Yes, even doing your civic duty can be a taxable event.
- Legal settlements.** Consider what the settlement replaces. If replacing a taxable item such as lost wages, a settlement often creates taxable income.
- Life insurance proceeds.** This is paid to you because of the death of an insured. It is generally not taxable.
- Prizes.** Most prizes received should be reported as ordinary income using the fair market value of the item.
- Child support.** Child support is not taxable to the person who receives it on behalf of the dependent. It is also not deductible by the person who pays it.

Standard Deductions

Item	2025	2024	Change
Single	\$15,750	\$14,600	+\$1,150
Married Joint/Widow	31,500	29,200	+\$2,300
Head of Household	23,625	21,900	+\$1,725
Married Filing Separate	15,750	14,600	+\$1,150
Elderly/Blind: Married	+\$1,600	+\$1,550	+\$50
Elderly/Blind: Unmarried	+\$2,000	+\$1,950	+\$50
Extra Deduction, Age 65+	+\$6,000	+\$0	+\$6,000

Maximum Earned Income Tax Credit

	2025	2024	Change
No Child	\$ 649	\$ 632	+\$17
1 Child	4,328	4,213	+\$115
2 Children	7,152	6,960	+\$192
3+ Children	8,046	7,830	+\$216

There Are Still Tax Breaks For Non-Itemizers

Every taxpayer can take the standard deduction to reduce their income prior to applying exemptions. However, if your deductions are going to exceed the standard amount you may choose to itemize your deductions. The primary reason someone itemizes deductions is generally due to home ownership since mortgage interest and property taxes are deductible and are generally high enough to justify itemizing.

Common sources of itemized deductions are: mortgage interest, property taxes, charitable giving, and high medical expenses.

What is Available. So what opportunities are available to reduce your taxable income if you use the standard deduction? Here are some of the most common:

- IRA Contributions (up to \$7,000, or \$8,000 if age 50 or over)
- Student Loan Interest (up to \$2,500)
- Alimony Paid (if divorce or separation agreement is effective prior to 1/1/2019)
- Health Savings Accounts (if you qualify)
- Donating appreciated long-term capital gain stock.
- Self-employed health insurance premiums

- One-half of self-employment tax
- Numerous education incentives such as Savings Bond Interest, Coverdell accounts, American Opportunity (Hope) Credit and Lifetime Learning Credit

- Plus numerous other credits including the Earned Income Credit, Child & Dependent Care Credit, Child Tax Credit, and Elderly or Disabled Credit.

This list is by no means complete. What should be remembered is to rely on a complete review of your situation prior to jumping to the conclusion that tax breaks are just for someone else. That someone else might just be you.