



Tax Update for Tax Year 2025

Dear Clients:

Another year has flown by and there are lots of changes in store. **Please take time to read this entire letter.** This will answer about 99% of the questions you'll have for 2025 and 2026. The IRS has announced that efilings will start January 26th. However, there are several tax forms and instructions that have yet to be written, and then all the tax software will have to be updated afterwards, so January 26th may not apply to everyone if you are one of those who needs one of the new tax forms. Also, their staffing levels are down about 25% from the prior year, so there are significantly fewer people to do the work.

The bottom line is this may be the bumpiest tax year we've had since Covid back in 2021.

Extensions

In past years, our promise was if we had all your tax materials 30 days before the deadline, we would have them completed and not need an extension. With all the uncertainty and potential for more follow-up questions for you, although we still anticipate 30 days being enough time, we can't guarantee it for this year like we have in past years.

We file extensions for every one of you. There is zero downside and only upside. Some people are against them as they think it increases the chances of being audited. This is not true. With all the uncertainties with the IRS and the new tax bill, we may need more time to file the returns as there are only so many hours in a day, and we may need more time to review tax returns and do some planning with many of you.

Now, an extension avoids the big penalty of filing late. There may still be a late payment penalty. The way around that is to pay 110% of what your tax bill was for 2024. Example-your total tax bill for 2024 was \$10,000. That means you would need to pay \$11,000 by April 15th. If your total withholding from your paychecks, or your estimated payments for 2025 totaled \$9000, you should make a \$2000 payment. The penalties, however, are not huge-for each \$1000 you would owe, the penalty would be \$5 per month, plus a little bit of interest. Each state may charge a slightly different rate, but the concept is the same.

If you typically have a refund every year, all that happens with an extension is your refund doesn't get processed until we get the tax return filed.

Electronic payments for refunds or taxes owed

The Treasury announced last summer that for refunds or any taxes owed after September would have to be paid electronically. They've yet to enforce this rule but may soon. Further info should be coming from the IRS. I recommend you start paying online now to get used to the new process, even if the IRS allows you to pay for 2025 by check if you owe. To pay online, you can do this on the IRS and your state's websites.

International Issues

If you have international bank accounts, there may be additional forms to file. Please let us know if this is an issue for you

Here is a summary of the important changes affecting your tax returns for 2025:

Standard Deduction-\$15,750 Single/\$23,625 Head of Household/\$31,500 Joint

Child Tax Credit-Raised to \$2200 and will be inflation adjusted going forward

SALT Deduction-Raised from 10K to 40K, so many more will be able to itemize and save a few extra bucks on taxes.

No Tax on Tips-Per return deduction up to 25K. Your employer will need to provide you with some sort of documentation. For 2026 and forward, it will be listed on your W-2.

No Tax on Overtime-Per taxpayer deduction up to 12.5K. As with Tips, your employer will provide some sort of statement. The most common will be your year-end paystub that shows how much you received in overtime wages.

BOTH the Tips and Overtime deductions phase out for income over 150K single/300K joint.

No Tax on Social Security-This is a terrible name for this. Every taxpayer 65 and older gets an extra \$6000 deduction, regardless of if you are collecting social security.

Car Loan Interest Deduction-This must be for a new vehicle purchased in 2025 with final assembly in the US. Maximum deduction is 10K and phases out at 100K single/200K joint. We need the VIN number and your year-end statement from your bank. For 2026 and forward this will be reported on a new form called 1098-VLI.

Bonus Depreciation for Businesses-Raised back up to 100%

179 Deduction for Businesses-Raised up to 2.5MM

Qualified Production Property-For anyone who starts or builds a facility that does any sort of manufacturing, you can expense 100% of the amount. This is a cool item, however it has several exceptions, so let us know if this is something you want to learn more about.

1099's for Businesses using Contractors-the limit requiring you to issue a 1099 for non-corporate contractors is still \$600 for 2025, however goes to \$2000 in 2026.

Gambling Losses-Limited to 90% of your gains. This is a complicated one, but the bottom line is you may have to report a small gain even if you have a net loss.

Summary of changes effective for 2026:

Standard Deductions- \$16,100 Single/\$24,150 Head of Household/\$32,200 Joint

Trump Accounts-A free \$1000 deposit for children born 2025-2028. Also, a potential \$250 from Michael Dell. These have lots of unresolved questions and the IRS should be issuing the details of these by mid-summer. A great way to start saving for college or retirement for newborns.

Business Meal Deductions-For onsite meals, these are no longer deductible. For example, during tax season I'll sometimes buy my staff lunch and have it delivered here to my office. This was 100% deductible in prior years. No deduction going forward. Travel meals are still 50% deductible.

Sale of Farmland-If you have farmland (leasing it to a farmer counts) and sell that to another who will farm or lease to farmers, you can spread any capital gains taxes over 4 years.

Roth Catch-up for Retirement Plans-If your income is over 150K and you want to do the extra "catch-up" contributions, those must be done as Roth contributions (meaning non-deductible)

Change in Post Office Postmark Dating

Letters dropped at your local post office may no longer be postmarked there but instead done a few days later if that local office does not have processing facilities. We can efile most things, however if you must mail something, we recommend you spend the extra \$5 and send it certified, regardless of if you're close to a deadline or not. This gives proof of mailing as well as the date confirmation.

Numerous IRS and State Department of Revenue Notices

Many of you have received erroneous IRS and/or state notices. Fixing these has become very time-consuming and as such, we've had to charge fees as these sometimes take hours and multiple phone calls, letters and faxes to the IRS. With the staffing reduction at the IRS, and with them now using AI to help (which is very unreliable in the tax world), we expect even more of these notices.

Tax and Financial Planning for Recent or Upcoming Events

Each year when I write this letter, I encourage you to reach out to us before you take on a big financial change. The fee for an hour or two of consultation may be peanuts compared to the long-term ramifications of the decisions you're making. I say this every year. Every year we have several clients that make big decisions without consulting us first and I hate having to be the bearer of bad news, or if there's no way around the bad news, for you not to have time to prepare for the tax implications. Also, asking for tax help from the guy at Home Depot, the auto dealer, or anyone else without the initials CPA or EA after their name, you're taking a chance. Even if they have a JD, unless they practice tax law, it may not be your best option. We have several clients who are attorneys and they realize the 2 classes they took in law school are significantly less training and ongoing continuing education than we have.

Ongoing Education

We take very seriously the need to keep ourselves up to date on tax law changes. I have a 25 hour a year continuing education requirement. For 2025, I took 234 hours of CE, almost 10 times the amount required. On top of that, this past June I completed my Master's in Taxation and in November took the US Tax Court Exam. Patrick will be completing his Enrolled Agent license this summer. Bea and Teri are quite the Quickbooks and Payroll gurus.

Many are unaware that there is no license requirement to prepare taxes. 75% of tax practitioners have no license. Now there are many unlicensed people that do a great job. However, having no license means there is no requirement for ongoing continuing education. If there was ever a time for people in our business to stay sharp, it's now and it's only going to get more important. It's estimated that about one-half of the IRS staff are going to retire in the next 5 years. They have hired new employees, but to be honest, most of them have no idea what they're doing as it takes years to get good at this.

Past Due Fees

About 10% of our clients still owe us for fees from last year and even a few from 2024. For those with past due amounts, we will not begin your 2025 tax returns until your balances are paid in full. We are happy to set up a payment plan and will begin your 2025 tax return provided that 50% of the past due balance is paid. I hate to take time on this, but the number of past due accounts has increased dramatically in the past two years. This is an issue not just with us, but with many of my colleagues across the nation. Almost 50% of tax firms in the USA now require fees to be paid in full before they begin the tax return. I have no desire to take this step, however, imagine if your employer decided to stop paying you in the middle of November for the rest of the year. That is essence is what's happening with 10% of you with past due invoices from last year.

Conclusion

Thank you again for allowing us to help you with your financial needs. With the new tax laws, there will be a lot to share with you throughout the year. We use Facebook and LinkedIn as our main sources of information sharing, so please follow us on one of those. We try to limit direct emails to only a few times a year for the very important things.

Best wishes to all of us for a prosperous 2026.