

TAX NEWS

FALL 2025

Dear Client,

In July, Congress and the President passed and signed the One Big Beautiful Bill Act (OB3). There were many new provisions in the bill, as well as many provisions of the 2018 Tax Cut and Jobs Act (TCJA) that were made permanent.

Tax provisions that may provide tax relief include: tip income deduction, overtime income deduction, car loan interest deduction, and the senior additional standard deduction. All of these have maximum deduction amounts, and may be limited by your adjusted gross income. In this newsletter, we will break down some of the more popular tax breaks. If you have any questions regarding these tax benefits, and how they may benefit you, give our office a call to help with tax planning.

One question we have been receiving is how the Trump Accounts, which will deposit \$1,000 into a newborn's account, will be processed. This benefit starts in 2025, however, the funds will not be deposited until mid-2026. The parents can establish an

account for the deposit, or the Treasury will set up the account for the newborn. We have provided more information regarding this account in the newsletter.

Some of these tax actions are retroactive to January 1, 2025 as the ones that were mentioned above. Many provisions have a start date of January 1, 2026. However, most are scheduled to sunset at the end of 2028 unless Congress acts to extend or make them permanent.

As we enter the last quarter of 2025, now is the time to prepare for the 2026 tax season. Collect tax data, organize receipts, and identify those actions that will have a tax effect. This can include the sale of an asset, changing jobs, the birth or death of a family member, and a change in marital status.

We look forward to working with you this tax season, help you prepare for any tax liability, and show you the effect the new tax bill will have on your individual income tax returns.

Contact our office to schedule a time to meet or if you have any questions regarding your tax situation.

Tip Income and Overtime Income Deduction

The tip income and overtime income deduction have some similar requirements:

- Married taxpayers must file a joint return to claim the deduction (married filing separately do not qualify).
- They both are limited: the overtime deduction is \$12,500 for a single taxpayer and \$25,000 on a joint return. The tip deduction is limited to \$25,000 for all filing statuses.
- The modified adjusted gross income (MAGI) phases out the deduction if your income as a single filer is greater than \$150,000 or \$300,000 for those filing a married filing jointly return.
- These are both temporary deductions that will expire at the end of 2028
- Since these are both retroactive provisions, the IRS will be providing transitional guidance for claiming these deductions in 2025.
- The 2025 Form W-2 will not be changed to reflect these deductions, the employer will be required to provide additional information with the Form W-2 to assist the employee in claiming these deductions. A new 2026 Form W-2 has been issued by the IRS which will be available in January 2027.

Tip Income Deduction

To be deductible as qualified tips, the tips must be earned in an occupation on the list of occupations that customarily and regularly receive tips. The tips must be paid in cash or an equivalent medium. Industries classified as a specified Service, Trade or Business (SSTB) are not eligible, nor are their employees. Tips received from customers through a mandatory or voluntary tip-sharing arrangement, the tip will also qualify.

Tips that are part of automatic service charges or automatic gratuities (such as hotel banquet checks) for which the customer has no discretion to either modify or disregard are not eligible for deduction.

Those workers who receive tips outside of payroll, such as the self-employed, must report those tips on Form 4137, Social Security and Medicare Tax on Unreported Tip Income, in order to qualify for the deduction.

A comprehensive list of eligible occupations is available through our office. The short list is:

- 100s – Beverage and food service
- 200s – Entertainment and events
- 300s – Hospitality and guest services
- 400s – Home services
- 500s – Personal services
- 600s – Personal appearance and wellness
- 700s – Recreation and instruction
- 800s – Transportation and delivery

Overtime Income Deduction

The deductible amount is the amount that exceeds your regular rate of pay—the “half” portion of “time-and-a-half” compensation. As with tips, to qualify, the overtime pay must be reported on a Form W-2, Form 1099, or other specified statement furnished to the taxpayer. For the overtime deduction, the IRS notes two criteria from the outset: (1) It only applies if you received overtime, and (2) you and/or your spouse who received qualified tips must have a valid Social Security number to claim the deduction.

This deduction generally only applies to employees, unless an independent contractor is subject to the FLSA rules. Or if the worker is incorrectly classified as an independent contractor, when they are in fact an employee.

Do You Know Your Education Tax Benefits?

Education tax benefits are provisions in the tax code designed to make higher education more affordable by reducing a taxpayer's overall tax burden. They come in several forms—credits, deductions, and tax-advantaged savings plans—and can apply to students, parents, or others who help pay for qualified education expenses.

- Tax credits (like the American Opportunity Credit and the Lifetime Learning Credit) directly reduce tax liability and are often the most valuable.
- Deductions (such as the student loan interest deduction or tuition and fees deductions when available) reduce taxable income.
- Savings vehicles (529 Plans, Coverdell ESAs, and now Trump Accounts) allow families to set aside money that grows tax-free when used for education.

Because each benefit has unique rules—covering eligibility, income limits, and qualified expenses—careful planning is essential to maximize savings and avoid overlap.

American Opportunity Tax Credit: The AOTC, can be claimed by people enrolled in college courses. It is worth up to \$2,500 credit per eligible student. This is calculated as 100 percent of the first \$2,000 spent on qualifying education expenses, plus 25 percent of the next \$2,000 spent for qualifying college costs.

The AOTC is partially refundable, meaning under certain circumstances part of the credit (up to \$1,000) can be returned to eligible taxpayers as a refund. If your tax liability is zero, and you have not used all of your AOTC benefit, then some of the AOTC can be refundable.

Expenses that qualify for the AOTC include tuition and certain related expenses required for enrollment or attendance at the student's college.

Lifetime Learning Tax Credit: This education tax credit, known as the LLC, also can be claimed in connection with students currently enrolled in college. The LLC is worth up to \$2,000 credit per federal tax return, not per student. That amount is calculated as 20 percent of the first \$10,000 in tuition expenses paid per year. The LLC is not refundable, meaning that it can reduce your tax bill to zero dollars, but any credit that exceeds your tax liability is lost.

But, as the name indicates, the LLC is available to a wider range of students. This includes those in graduate school, as well as individuals who are not in school, but take courses to acquire or improve job skills.

529 Education Plans: Created by Congress in 1996, these accounts officially are designated as a "qualified tuition program" in the Internal Revenue Code (IRC).

There are two types of 529 plans, a tuition prepayment plan, and a savings (really an investment) plan to which you contribute money to be used later to pay for a student's qualified higher education costs.

The tax benefits for a 529 savings plan include account growth that is federally tax-deferred, letting your money compound more quickly since you do not lose a portion of it to taxes. That tax benefit extends to 529 withdrawals; as long as you use the money to pay for qualified education expenses, the distributions are tax-free. Also, in some instances 529 funds can be used to pay for non-college educational costs.

The OB3 makes it easier to use 529 funds in more cases. The new tax law broadens the range of expenses 529 plans can cover for K-through-12, expanding them to assorted pre-college non-tuition expenses, including instructional materials, tutoring, dual enrollment costs, and more.

Starting in 2026, the OB3 also doubles the amount parents are able to withdraw for K-12 expenses from \$10,000 to \$20,000. It also allows for 529 withdrawals to pay for "postsecondary credentialing expenses," including licenses and certificates.

The ability to roll over 529 funds tax-free to Achieving a Better Life Experience, or ABLE, accounts for individuals with disabilities, that was set to expire December 31, 2025, now is permanent. Eligible persons can only have one ABLE account, and the annual contribution limit is tied to the gift amount. For 2025 that limit is \$19,000. Contributions can come from the individual, family, friends, or rollovers from a 529 Education Plan.

ABLE accounts are a special type of tax-advantaged savings account created by the ABLE Act of 2014 to help individuals with disabilities and their families save and pay for disability-related expenses. They are similar in structure to a 529 college savings plan, but designed for disability needs. ABLE accounts are designed to allow people with disabilities to save for qualified expenses without losing eligibility for important federal benefits such as SSI (Supplemental Security Income) and Medicaid. In order to qualify, the beneficiary:

- Must have a significant disability or blindness that began before age 26.
- Must meet SSI/SSDI disability criteria or be certified by a doctor as having a qualifying disability.

Starting in 2026, the age will increase to before 46 (per SECURE 2.0 Act, 2022).

Contributions to 529 plans, which are state-sponsored and offered in every state and District of Columbia, are not deductible on your federal tax return. However, most states that tax residents' income offer state tax deductions on 529 plan contributions or tax exemptions on withdrawals.

Coverdell Education Savings Accounts: A Coverdell education savings account, or ESA, is another tax-favored way to save for college. Like 529 plans, Coverdell money grows tax free, and distributions to pay for qualified college expenses are tax free, whether incurred at a public, private, or religious school. You also can use the money to pay qualified kindergarten through college costs. The challenge of a Coverdell is its relatively small, \$2,000 per child, maximum annual account contribution limit.

Student Loan Interest Tax Deduction: This deduction is a maximum of \$2,500 of student loan interest paid each year, for all filing statuses. The deduction could be reduced if your earnings exceed a certain amount. You also must have taken out the loan solely to pay qualified education expenses for you, your spouse, or a dependent.

Employer-Provided Educational Assistance: Many companies offer their employees generous job benefits. In some cases, that includes employer-provided education assistance. These funds, up to a \$5,250 maximum, are provided to workers to help cover educational costs. The money is a tax-free benefit, since it is excluded from worker's taxable income.

If you get financial assistance from your firm, it will be noted on the W-2 form your employer issues you and copies to the IRS. And if your employer is very generous with this benefit and you get more than the tax-free limit, you'll have to pay tax on the benefit amount that exceeds \$5,250.

This employer-provided educational benefit amount has been fixed since 1979, but the OB3 changes that. Beginning in 2026, the \$5,250 maximum exclusion will be indexed for inflation.

Savings Bonds: Many consider savings bonds an archaic way to stash cash. However, these government issued financial instruments also can help pay for some higher education costs for yourself, your spouse, or a dependent.

Interest earned on eligible Series EE issued after 1989 and I bonds is not taxed as long as the bond owner uses the redeemed bonds to pay tuition and fees for higher education expenses at an eligible institution. In addition to meeting certain requirements, there is also an income limit for the education-related savings bond interest exclusion.

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Early IRA Distributions: It is generally not advised to use retirement funds for current debt. However, if you need traditional IRA money to pay qualified higher education expenses, you can get a bit of tax relief.

When you take money from a traditional IRA before you celebrate your 59½ birthday, you must pay a 10 percent tax penalty on the distribution. However, when the money is used for certain school-related costs, the penalty is waived. You must, though, still pay tax on the IRA amount you withdraw.

Education expenses that qualify for the 10 percent penalty waiver include tuition and fees, and books, supplies, and equipment required for enrollment or attendance. Students attending at least on a half-time basis can also use penalty-free IRA money to pay room and board. Special needs students can avoid the penalty if the expenses are for any special services incurred in connection with the student's enrollment or attendance.

Some discharged student loans are now tax-exempt: Student loan debt that is discharged due to death or total and permanent disability (TPD) is now tax exempt.

Under prior law, student loan debt cancellation would have been counted as income for the loan holder. That taxable income treatment remains in effect for most other types of forgiven debt.

The federal government can discharge your loans if your school closed or engaged in certain types of misconduct.

- **Closed School Discharge:** This applies if your school closed while you were enrolled or shortly after you withdrew, preventing you from completing your program. In many cases, this discharge is granted automatically, but you can also apply manually.
- **Borrower Defense to Repayment:** You may be eligible if your school misled you, committed fraud, or otherwise violated laws related to your loans or educational services.
- **False Certification Discharge:** This can apply if your school falsely certified your eligibility to receive a loan, such as if you had a disqualifying status or were the victim of identity theft.
- **Unpaid Refund Discharge:** You may qualify for a partial discharge if your school failed to pay a refund it owed you

Other options to reduce your student loan debt: Several federal (and some state) programs let you “work off” your student loan debt by providing qualifying employment or service. These are not private lender programs—they are generally tied to federal loan forgiveness rules.

1. **Public Service Loan Forgiveness (PSLF)**
 - ◊ Who qualifies: Full-time employees of government or qualifying 501(c)(3) nonprofit organizations.
 - ◊ Requirement: Make 120 qualifying monthly payments (10 years) under an income-driven repayment (IDR) plan.
 - ◊ Benefit: Remaining Direct Loan balance is forgiven tax-free.
 - ◊ Key note: Must have Direct Loans; FFEL and Perkins loans must be consolidated.
2. **Teacher Loan Forgiveness**
 - ◊ Who qualifies: Teachers working full-time in low-income schools or educational service agencies.
 - ◊ Requirement: At least 5 consecutive years of teaching.
 - ◊ Benefit: Forgiveness of up to \$17,500 on Direct Subsidized/Unsubsidized Loans or Subsidized/Unsubsidized Stafford Loans.
3. **Income-Driven Repayment (IDR) Forgiveness**
 - ◊ Who qualifies: Any borrower using IDR plans (e.g., SAVE, PAYE, IBR, ICR).
 - ◊ Requirement: Make 20–25 years of qualifying payments, depending on the plan.
 - ◊ Benefit: Remaining balance forgiven.
 - ◊ Tax treatment: Normally taxable, but federally tax-free through 2025 under ARPA.
4. **National Health Service Corps (NHSC) Loan Repayment**
 - ◊ Who qualifies: Medical, dental, and behavioral health professionals working in Health Professional Shortage Areas.
 - ◊ Benefit: Up to \$50,000 forgiven for a 2-year commitment, with potential extensions.
5. **Nurse Corps Loan Repayment Program**
 - ◊ Who qualifies: Registered nurses, nurse faculty, advanced practice RNs in critical shortage facilities.
 - ◊ Benefit: Pays up to 85% of unpaid nursing education debt over 3 years.
6. **Military Service Programs**
 - ◊ Each branch has its own loan repayment assistance programs (LRAPs).
 - ◊ Typically repay up to \$65,000 of federal student loans in exchange for service.
7. **State Loan Repayment & Forgiveness Programs**
 - ◊ Many states offer targeted programs for teachers, doctors, nurses, social workers, and lawyers who serve in underserved or rural areas.
 - ◊ Benefits and service terms vary by state.

Trump Accounts Explained

OB3 establishes Trump Accounts, which are tax-favored saving options that start with newborns. Under a pilot program for Trump Accounts, parents can make an income tax election on behalf of their newborn who is born as a U.S. citizen in 2025 through 2028. The newborn must have a social security number.

Once the election is made, the Treasury will enroll your newborn in the pilot program and fund a Trump Account with \$1,000. Further guidance will be provided by the IRS on how to make the election.

- Contributions to Trump Accounts may only be made beginning 12 months after enactment of the Big Beautiful Bill, and only until the child beneficiary reaches age 18.
- Trump Accounts grow tax-deferred until the beneficiary withdraws the money.
- Withdrawals are generally not permitted under Trump Accounts until the beneficiary reaches age 18.

- Trump Accounts are required to be invested in a mutual fund or exchange traded fund which tracks a US stock index and does not have annual fees and expenses of more than 0.1%.

Starting July 4, 2026, parents will be able to make annual contributions of up to \$5,000 into the account until the year your child turns 18 years old. Your employer can also make up to a \$2,500 contribution to the account—but then the parents can only deposit up to the difference of \$5,000. In other words, the most that can go into the account annually is \$5,000 but the employer can provide up to \$2,500 of that amount and take a business deduction.

No distributions can be taken from the Trump Account before the year your child turns 18. Until then, the Trump Account balance grows tax-deferred until withdrawn.

Starting with the year your child turns 18, the Trump Account transitions into a traditional IRA subject to the same rules governing contributions to and distributions from the traditional IRA.

Car Loan Interest Deduction

The new deduction for car interest applies to the tax years 2025 through 2028 and allows you to deduct interest paid on a loan used to purchase a qualified vehicle. It can be claimed regardless of whether or not you itemize deductions.

To qualify for the deduction, the interest must be paid on a loan that originates after December 31, 2024, to purchase a vehicle (leased vehicles do not qualify). The original use of the vehicle

must start with you (used vehicles do not qualify). The deduction applies to interest paid on a loan for a personal use vehicle (not for business or commercial use) and must be secured by a lien on the vehicle. The maximum deduction available is \$10,000.

With this provision, the deduction phases out if your modified adjusted gross income is over \$100,000 (\$200,000 for joint filers).

Bad Tax Advice on Social Media Leads to \$162M in IRS Penalties

The Internal Revenue Service has hit taxpayers with over \$162 million in penalties for claiming fraudulent tax credits they heard about through social media.

The claims involve illegitimate claims for tax breaks such as the Fuel Tax Credit and the Sick and Family Leave Credit. The IRS has seen a surge in such claims in the past five years, and warned last year about abusing them. Social media posts promoting such schemes have prompted thousands of taxpayers to file inaccurate, frivolous returns, often leading to the denial of tax refunds and hefty penalties.

Many of the posts falsely claim that all taxpayers are entitled to tax credits they don't actually qualify for, such as those aimed at self-employed people or businesses. The IRS regularly publishes and updates a list of frivolous positions on IRS.gov that could lead to penalties.

"These schemes are not only misleading but can cost taxpayers dearly," said James Clifford, IRS Director Return Integrity and

Compliance Services. "People who follow this advice could end up with rejected claims and a penalty of up to \$5,000 in addition to any other penalties that might apply. So far, the IRS has imposed over 32,000 penalties, costing taxpayers more than \$162 million. It's in the taxpayer's best interest to stay informed."

The schemes often share some traits in common, stemming from social media posts claiming virtually everybody qualifies for certain tax credits. The scammers often promise "easy" or "fast" tax refunds despite minimal documentation and instruct taxpayers to file amended tax returns, even if they didn't originally qualify for claiming the credits. The scams encourage taxpayers to ignore IRS letters or respond to them with false information.

Taxpayers who file false claims can face negative consequences, including delayed tax refunds, denied refund claims, and a \$5,000 civil penalty under Section 6702 of the Tax Code for filing a frivolous return. They can also find themselves subject to future IRS examinations and enforcement actions.

Relief is Available if You Cannot Pay Your Tax Bill

If you find yourself in a situation where you cannot pay your taxes, the IRS has provided several solutions to make regular payments. If you are not able to pay the taxes due, an offer-in-compromise might be appropriate. That is a discussion for another day.

Using Credit or a Bank Loan

Before requesting an Installment Agreement (IA) or payment plan with the IRS for any unpaid tax liability, it may be more practical and cost effective to try to get a bank loan or to use available credit.

Ability to Pay the Entire Liability within Six Months

By paying past-due tax debt within 180 days (roughly six months), you can avoid user fees and you will not have to go through the stress and formality of filing IRS forms and providing personal financial information concerning assets and liabilities. With an ability to pay the entire outstanding tax debt within 180 days, you can simply either (1) call the IRS at 800-829-1040 for individuals and/or (2) if the outstanding debt is less than \$100,000 in combined tax, penalties, and interest, apply online at IRS.gov/OPA (OPA—online payment agreement).

IRS Installment Agreements

The IRS has the authority to enter into a written Installment Agreement (IA) to allow taxpayers to pay their tax liabilities over time if such an arrangement would facilitate the collection of tax. call to the IRS or by submitting Form 9465, Installment Agreement Request.

Throughout the duration of the IA, penalties and interest will continue to accrue on the unpaid liability. Failure to comply with the terms of an IA may result in the imposition of significant penalties and accrual of additional interest charges. In more

severe cases, the IRS may resort to enforced collection actions, including the issuance of levies and seizure of assets.

The IRS charges user fees for all IAs, but reduced fees are available. For example, reduced fees apply if the taxpayer sets up an automatic/direct debit payment agreement or if the taxpayer's income is at or below certain government poverty guidelines.

Simple Payment Plans

In 2025, the IRS introduced new Simple Payment Plans for individuals, which are described as easier to understand and more accessible. According to the IRS, more than 90% of individual taxpayers with tax debt will qualify for a Simple Payment Plan. Eligible taxpayers will not be required to provide a collection information statement and the IRS will not make a lien determination. You may qualify as long as the do not owe the IRS more than \$50,000 in assessed taxes, penalties, and interest; and you are up-to-date on all of your tax filings.

Streamlined Installment Agreements

Several streamlined installment agreements exist, all depending on the amount of tax liability outstanding, generally in the following increments: (1) \$25,000 or less, (2) \$50,000 or less, (3) \$100,000 or less, and (4) up to \$250,000 in outstanding tax liability. The factor that identifies the installment agreement as "streamlined" is the IRS's use of its integrated automation technologies compliance suite payment calculator to determine the aggregate unpaid balance, including penalties and interest, and the taxpayer's ability to pay before the CSED.

Streamlined Installment Agreements generally require the debt to be paid within 120 months (ten years) or prior to the CSED, if earlier. A limited amount of financial information may need to be provided to the IRS to justify the ability to pay.