

MM Tax Service, Inc.

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2025 TAX NEWSLETTER

On July 4, 2025, President Donald Trump signed into law his signature One Big Beautiful Bill Act (OBBBA). The new law extends some changes enacted under the Tax Cuts and Jobs Act while creating some new provisions for certain taxpayers. The information and strategies provided within this newsletter may or may not be appropriate for your situation. It's important to consult with your tax professional before implementing them.

New Rules Effective for 2025

No Tax on Tips. For tax years 2025-2028, certain tipped employees are allowed a new deduction for the money earned on qualified cash tips. The deduction is not an exclusion from gross income, but a deduction when you file your tax return and your tip income is still subject to Social Security and Medicare taxes.

You can deduct up to \$25,000 of your tips each year, however, the amount you can deduct starts to shrink if your modified adjusted gross income, (MAGI) is too high:

- Single - the deduction goes down if your MAGI is over \$150,000.
- Married and filing jointly, the deduction goes down if your MAGI is over \$300,000.

The deduction is only allowed for tips that are:

- included on a tax information form such as Form W-2, Form 1099 or similar.
- given to you voluntarily by the customer; they can't be negotiated or a required service charge.
- from a qualifying occupation that customarily and regularly receives tips. The IRS will publish a list of these occupations.

No Tax on Overtime Pay. A new temporary deduction (2025-2028) is in effect for certain overtime wages. The new bill allows you to deduct up to \$12,500 (or \$25,000 if filing jointly) of qualified overtime pay from your federal taxable income. As with the tips, this is NOT a total tax exemption; Social Security and Medicare taxes still apply.

The amount you can deduct phases out by \$100 for every \$1,000 of modified adjusted gross income (MAGI) above certain levels.

- \$150,000 for single filers
- \$300,000 for joint filers

To count as "qualified overtime compensation," the pay must be for the time worked over 40 hours in a week and be required by the Fair Labor Standards Act (FLSA). Only the portion of overtime pay that exceeds your regular rate ("the premium" or "half-time" in a time-and-a-half scenario) qualifies.

Overtime paid beyond what is required by FLSA generally does not qualify for this new deduction.

In order to claim the deduction your employer must report the total amount of your qualified overtime pay on your Form W-2 (or on Form 1099 if you are a non-employee).

New Deduction for Car Loan Interest. A temporary deduction for tax years 2025 - 2028 allows you to deduct the interest you pay on loans used to purchase a new personal-use vehicle. You can claim this deduction even if you take the standard deduction and don't itemize.

You can deduct up to \$10,000 of qualified car loan interest each year. A qualified car loan is one that is taken out after December 31, 2024.

To claim this new deduction:

- The loan must be a new loan (incurred after December 31, 2024) and secured by a first lien on the vehicle, meaning it must be a brand-new vehicle that no one else has used or owned. Loans from related parties do not qualify.
- The vehicle must be a standard passenger car, minivan, van, SUV, pickup, or motorcycle with a gross vehicle weight rating (GVWR) under 14,000 pounds.
- The vehicle's final assembly must occur in the United States.
- You will need to report the Vehicle Identification Number (VIN) on your tax return.

The deduction is subject to an income limit based on your modified adjusted gross income (MAGI).

New Deduction for Seniors. A new deduction created for seniors (65+) is available starting with the 2025 tax year and will last through the 2028 tax year. The deduction is \$6,000 per qualifying person (so a \$12,000 deduction is available if both spouses qualify) and is in addition to the standard deduction or your itemized deductions.

This deduction is intended for taxpayers below a certain income level. The deduction will be reduced or eliminated if your AGI exceeds \$75,000 (\$150,000 for joint filers).

Note: Several news outlets claimed that this new provision eliminates tax on Social Security benefits, but this is not true. As a reminder, the old rules for taxing social security benefits are still in place. Whether your benefits are taxed depends on your total income.

Increased Child Tax Credit. The child tax credit (CTC) has increased from \$2,000 to \$2,200 per qualifying child, effective for tax year 2025.

Termination of Energy and Clean Vehicle Credits. These credits are now terminating early. The end date for these credits vary, but most end as of December 31, 2025.

Additional Information

Standard Mileage Rate. Taxpayers can use the standard mileage rate instead of actual expenses when computing the deductible costs of operating vehicles owned or leased by them for business purposes. The following rates are applicable for the 2025 tax year:

Business	.70
Medical	.21
Moving	.21*
Charitable	.14

*Applies to members of the Armed Forces on active duty who move pursuant to a military order.

SALT Limitation. The deduction for state and local tax (SALT) is increased in 2025 for those who itemize their deductions. The deduction increases to \$40,000 with additional increases through 2029. In 2030 the deduction reverts back to \$10,000. This temporary increase will be reduced or eliminated if your MAGI exceeds \$250,000 (\$500,000 for joint filers).

Educator Expenses. For 2025, eligible educators can deduct up to \$300 of unreimbursed qualified expenses. Eligible educators are K-12 teachers, instructors, counselors, principals, or aides who worked at least 900 hours during a school year in a school providing elementary or secondary education.

Business Information

Permanent Qualified Business Income (QBI) Deduction. The OBBBA made the 20% QBI deduction permanent. This deduction was previously set to expire after 2025.

Permanent 100% Bonus Depreciation. The 100% bonus depreciation for qualified property is now permanent. Previously, this provision was phasing out, dropping to 0% after 2026.

Changes to Forms 1099-K, 1099-NEC and 1099-MISC. Third-party network transactions had a \$600 reporting threshold. The 1099-K threshold is now \$20,000 and 200 transactions (made retroactive for 2025) and the 1099-NEC and 1099-MISC threshold increases to \$2,000 (starting in 2026).

Notable Changes for 2026

Charitable Giving. Beginning in 2026 individuals who don't itemize deductions are entitled to a charitable deduction of up to \$1,000 (\$2,000 for a joint return). To qualify contributions must be in cash, must be made to a public charity, cannot be made to a §509(a)(3) supporting organization or to establish or maintain a donor advised fund.

IRS Notices

The IRS typically initiates contact with taxpayers by mail. If someone contacts you claiming to be the IRS and demands payment by phone or threatens arrest, it's a scam.

Each notice will include an alphanumeric code, like CP2000 or LT11, that identifies the type of issue. You can look up notice codes on the IRS website to understand why you are receiving the notice.

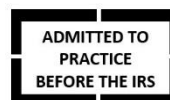
If you receive a notice from the IRS, don't panic. Read through the notice to understand what the

IRS is asking for. Some notices require action, while others are simply informational. If you are unsure about what the notice is for, send a copy to us and we can help you review it and respond, if appropriate.

If you receive a Letter 5071C asking you to verify your identity, the IRS either suspects identity theft or wants to confirm your information before processing your tax return. Follow the instructions on the letter. Do not ignore these notices; failing to respond may delay or prevent your refund.

PRIVACY POLICY

We do not disclose any non-public personal information about our clients or former clients to anyone, except as instructed to do so by such clients, or required by law. We restrict access to non-public personal information, and we maintain physical, electronic, and procedural safeguards to guard your personal non-public information.



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2025 Reference Guide

2025 Federal Tax Rate Schedule

Tax Rates	Single		Head of Household		Married Filing Separately		Married Filing Jointly Qualified Surviving Spouse (QSS)	
<i>Ordinary Income</i>	<i>Taxable Income over</i>	<i>to</i>	<i>Taxable Income over</i>	<i>to</i>	<i>Taxable Income over</i>	<i>to</i>	<i>Taxable Income over</i>	<i>to</i>
10%	\$0	\$11,925	\$0	\$17,000	\$0	\$11,925	\$0	\$23,850
12%	11,925	48,475	17,000	64,850	11,925	48,475	23,850	96,950
22%	48,475	103,350	64,850	103,350	48,475	103,350	96,950	206,700
24%	103,350	197,300	103,350	197,300	103,350	197,300	206,700	394,600
32%	197,300	250,525	197,300	250,500	197,300	250,525	394,600	501,050
35%	250,525	626,350	250,500	626,350	250,525	375,800	501,050	751,600
37%	626,350	--	626,350	--	375,800	--	751,600	--

2025 Long-Term Capital Gains

Rate	Single	HOH	MFJ or QSS	MFS
0%	\$0 - 48,350	\$0 - 64,750	\$0 - 96,700	\$0 - 48,350
15%	48,3501 - 533,400	64,751 - 566,700	96,701 - 600,050	48,351 - 300,00
20%	533,401 +	566,701 +	600,051 +	300,001 +

2025 Standard Deduction

MFJ or QSS	\$30,000
HOH	22,500
Single or MFS	15,000
<i>Additional amounts for age 65 or older and/or blind (per person).</i>	
MFJ or QSS, or MFS	1,600
Single or HOH	2,000

2025 Health Savings Accounts

Type of Coverage	Contribution Limit
Self-only	\$4,300
Family	\$8,550
<i>Catch up Contributions for Individuals over 55</i>	\$1,000

2025 IRA Contribution Limits

Regular contribution	\$7,000
<i>Catch up for taxpayers 50 and over</i>	\$1,000