January 5, 2026

Dear Clients and Friends,

You may have noticed that our name has changed. Larrisa Stokley is now a shareholder in and Vice President of the firm. Be sure to congratulate Larissa on this well-deserved promotion.

We certainly have had an interesting 2025 and it brought some tax changes along with it. I will try and cover the main highlights that affect most of you, but most likely will not cover everything. Some things you have heard may not be completely accurate, so if you have any specific questions that I do not cover here, please let me know.

WHAT'S NEW: The One Big Beautiful Bill Act (OBBBA)

Individuals:

Student Loan Debt Discharged: Effective for after 2025 will be excluded from income on account of death or permanent and total disability of the student.

Moving Expense Deduction and Exclusion: Permanently repealed except for Military and New appointees of the intelligence community who are permanently reassigned and are required to move.

Standard Deduction: Was set to revert to the lower amounts from 2017 at the end of 2025. Beginning in 2025 they will remain at current levels and will be adjusted for inflation going forward.

Personal Exemptions: Were removed beginning in 2018 and set to resume in 2026. These were permanently terminated except for a senior deduction for tax years 2025 through 2028 of $6,000 per qualified taxpayer age 65 or over. These phase out when income exceeds $75,000 for a single taxpayer or $150,000 for married filing jointly. Note that many of you may have heard social security would not be taxable. That is not what happened with the OBBBA.

Deduction for Qualified Tips: For tax years 2025 through 2028, qualified tip income is allowed as a deduction from income, limited to $25,000. The deduction will start to phase out when income exceeds $150,000 for single filers or $300,000 for married filing jointly. This is not an itemized deduction.

Deduction for Qualified Overtime Pay: For tax years 2025 through 2028, qualified overtime pay up to $12,500 for single filers and or $25,000 for married filing jointly will be deducted from income. This is only the amount that is over and above base pay. For example, if you make $10 per hour for regular pay and you are paid $15.00 per hour for overtime work, you will get to deduct the $5.00 per hour overtime premium from your income. Phaseout of this deduction begins when income exceeds $150,000 for single filers and $300,000 for married filing jointly. This is not an itemized deduction.

Qualified Passenger Vehicle Loan Interest: For tax years 2025 through 2028, interest on **new** passenger vehicles under 14,000 lbs. and has had final assembly occurring in the United States is allowed as a deduction. This deduction begins to phase out when income exceeds $100,000 for single filers or $200,000 for married filing jointly. This is not an itemized deduction. The vehicle has to be for personal use.

Charitable Contributions: For tax years beginning after 2025, taxpayers who do not itemize can deduct up to $1,000 of cash charitable contributions ($2,000 for married filing jointly). **The new law places a 0.5% floor on charitable deductions for itemizers.**

Disaster-Related Personal Casualty Losses: Extended back to January 1, 2018, and through July 4, 2025. Includes Federal and State declared disasters.

Itemized Deductions:

Home Mortgage Interest: For tax periods beginning after 2025, acquisition debt limit is $750,000 and interest on home equity loans is not allowed. Payments for Mortgage Premium Insurance (MPI) related to acquisition debt are reinstated to be considered as interest. The deduction for MPI only begins to phase out when income exceeds $50,000 for single filers or $100,000 for married filing jointly.

State and Local Tax Deduction: For tax years 2025 through 2029 the deduction is increased from $10,000 to $40,000. For tax years 2026 through 2028 the deduction limit increases by $400, and some change each year. The deduction is decreased by 30% of the excess income over the threshold of $250,000 for single filers and $500,000 for married filing jointly. The threshold will be increased by an inflation adjustment from 2026 through 2029.

Personal Casualty Loss Deductions: Effective for years beginning after 2025, these losses are deductible if attributable to a federally or state declared disaster (i.e. hurricane, tornado, storm, high water, wind-driven water, tidal wave, tsunami, earthquake, landslide, mudslide, snowstorm, draught, explosion, fire or flood). For 2025, only those losses attributable to a federally declared disaster are deductible.

Miscellaneous Itemized Deductions: The new law permanently disallows a deduction for the miscellaneous expenses that were subject to the 2% AGI limitation for tax years before 2018. For tax years beginning after 2025 the deduction for educator expenses are allowed as itemized deductions, with an expanded list of allowed expenses. The above the line deduction of up to $300 is still available for non-itemizers.

Itemized deductions Limitation: For tax years beginning after 2025, itemized deductions begin to phase out when taxable income exceeds the dollar amount at which the 37% bracket begins. For tax years 2018 through 2025 this limitation was suspended.

Gambling Losses: For tax years beginning after 2025, Gambling losses are limited to 90% of the losses incurred during the year and limited to gambling wins for the year.

Tax Rates: The new law permanently extends the current tax brackets for individuals, estates, and trusts.

Child Tax Credits: For tax year 2025, the Child Tax Credit is increased to $2,200 per qualifying child under age 17. After 2025 the amount is adjusted annually for inflation.

Saver's Credit: The provision made by the Secure Act of 2022, set to begin in tax year 2027, has been repealed like it never happened. The new law also increases the contribution for the credit from $2,000 to $2,100. This is for low-income taxpayers who contribute to an IRA or employer-sponsored retirement plan.

Adoption Credit: Effective for tax years beginning after 2024, up to $5,000 of the Adoption credit is refundable. The refundable amount will be adjusted annually for inflation.

Child and Dependent Care Tax Credit: For tax years beginning after 2025, the credit ranges from 50% if AGI is $15,000 or less, to 20% is AGI is over $106,000 for single filers or $206,000 for married filing joint. The expense limits are not changed from $3,000 for one qualifying person and $6,000 for two or more qualifying persons.

Termination of the Clean Vehicle and Energy Efficient Credits: The vehicle credits expire for vehicles purchased after September 30, 2025. Alternative Vehicle Refueling Property Credits expires for property placed in service after June 30,

2026. Energy Efficient Home Improvements and Residential Clean Energy Credits expire December 31, 2025. The Energy Efficient Commercial Buildings deduction and the New Energy Efficient Home Credit expire June 30, 2026.

Estate and Gift Tax Exemption Amount: Effective for Decedents dying after December 31, 2025, the estate and gift tax exemption is increased to $15 million, adjusted annually for inflation.

Business:

Capital Gains for the Sale of Certain Farmland: Effective for sales after July 4, 2025, a taxpayer can elect to pay the net income tax on the gain from sale or exchange of certain farmland to a qualified farmer over a 4-year period in equal installments. There are restrictions for this so if you think you may qualify, let's talk.

Section 179 Deduction: Effective for tax years after 2024, the deduction limit is raised to $2.5 million, adjusted annually for inflation and the investment limit is $4 million, adjusted annually for inflation.

Special Depreciation Allowance (Bonus Depreciation): For property acquired after January 19, 2025, the new law permanently extends the 100% expensing of all eligible property. Property placed in service January 1, 2025, through January 18, 2025, is subject to 40% bonus depreciation.

Special Depreciation Allowance for Qualified Production Property: Bonus Depreciation is allowed for the portion of New Non-residential Real Property used as an integral part of a qualified production activity that is placed in service in the United States or any possession of the United States. Construction must begin after January 19, 2025, and before January 1, 2029. It does not include any part of the property used for offices, administrative services, lodging, parking, sales, research, software development or engineering activities or any other function unrelated to the manufacturing, production or refining of tangible personal property.

Just like last year, here are the items we will need:

1. **Estimated Tax Payments:** If you made any, please provide the amounts and dates you paid them. This is one of the main causes for IRS processing delays. We must get this correct, or your return will either be rejected and/or you will have to call and prove your identity to the IRS.
2. Copies of your driver's licenses (if married we need both spouses). If they have not expired since we saw you last year, then we do not need them again.
3. If you have minor children at home or children in college, we need proof of residency. This can be a notice from the school, a doctor's bill, or a letter from your church or other organization. **Whatever proof you provide must have your child's name and your address on it and must be for the year 2025.**
4. If you have a new child, congratulations! Also, we will need a copy of their social security card for our file. If we do not have copies of your other children's social security cards, we may request those for our files as well.
5. **Proof of health insurance** is required only if you purchased health insurance through the Marketplace. Then, we must have your **form 1095-A**. Otherwise your return will be rejected, and we will have to re-do it once you provide us with the form.
6. Copies of all W-2's, 1099's and 1098 forms. We cannot accept written amounts; we must enter data from these forms.
7. If the IRS has issued you or your spouse an **Identity Theft Pin** number, we will have to have that, or the IRS will reject your return.
8. **If you have moved, please notify us of the address change.**
9. **If you expect a refund and your bank account has changed, we will need your new banking information.**
10. If you would like an organizer, please give us a call, and let us know. If we prepared an organizer for you last year, we will automatically mail one to you.

11. Overtime deduction: we will need information on the amount of overtime you were paid from your employer as it may not show up on your form W2. We also need to know if it was 1.5 times your base pay rate or 2.0 times your base pay rate. Your last paystub of the year may have this information that we need.

Signatures for E-Filing authorization. The IRS is not allowing one spouse to sign for the other unless that spouse provides a written power of attorney signed by the other spouse. If only one spouse is coming to pick up your tax return, we must have the sign off back before we can e-file and it must be signed by both spouses. **If you need an IRS power of attorney form, please let us know when you come to drop your tax information off, and we will gladly provide those to you. That will speed up the process if only one of you comes back to pick up the completed return.**

Tax Info for 2025:

1. **The standard deduction increased for inflation.**

Filing Status	2025	2026
Single	$15,750	$16,100
Head of Household	$23,625	$24,150
Married Filing Joint	$31,500	$32,200
Married Filing Separate	$15,750	$16,100

2. For a taxpayer or spouse who is age 65 or over or blind, the following **additional standard deduction** will apply for 2025:

Filing Status	**Amount**
Unmarried Taxpayer	An additional amount of $2,000; $4,000 for taxpayers who were both over 65 and blind.
Married Taxpayer	An additional amount of $1,600; $3,200 for each spouse that are both over 65 and blind.

3. The personal exemption is permanently eliminated.

4. **Business Mileage rates are**:

2025	2026
$0.70/mile	$0.725/mile

5. Depreciation for Business Assets

Bonus depreciation pertains to qualified property with a useful life of 20 years or less purchased prior to January 20, 2025. The applicable percentages are subject to a revised phasedown schedule that is shown below.

- 40% for property placed in service during calendar year 2025;

For qualified property purchased after January 19, 2025, the rate is 100%. This has been made permanent.

6. **Section 179 Depreciation Rules**

The maximum annual deduction allowed for qualified property has increased to $2,500,000 in 2025. Phase out of the deduction starts at $4,000,000 in fixed asset additions. This deduction is limited to your net profit.

7. **Estate Taxes**

For taxpayers dying in 2026 forward, Form 706 must be filed by the executor for the estate of every US citizen or resident whose gross estate and adjusted taxable gifts and specific exemption are more than $15,000,000 (indexed for inflation each year going forward). The amount for 2025 $13,990,000.

8. Gifts

The maximum (per person) annual gift you can give, without having to file a gift tax return is $19,000 for 2025 and 2026.

9. **Energy Credits**

Residential Clean Energy Credits expire after 2025.

Energy Efficient Home Improvement Credit expires after 2025.

Clean Vehicle credits expire for vehicles purchased after 09/30/2025.

10. **IRA Contribution Deadline – 04/15/2026**

These are some highlights that I thought would be of interest to you. We are looking forward to serving you this year. If you need an extension, please give us a call, and let us know. If we do not hear from you by the deadline, we will do our best to file an extension as a courtesy. If you expect to owe, then we advise you to send the estimated amount with your extension to avoid additional penalties and interest. Please call us so we can get the voucher prepared for you well before April 15, 2025. **Please note that the deadline for filing Partnership and S-Corporation returns is March 16, 2025.**

Sincerely,

David M. Hayes, CPA   Larissa Stokley, CPA

David M. Hayes, CPA   Larrisa Stokley, CPA