

Dear Client,

On July 4, 2025, the President signed the new 2025 Tax Bill, which is called the **One Big Beautiful Bill Act, or OBBB or OB3**. Many rumors are circulating about what will change and what will remain the same. Here is an accurate summary of information that could impact you this tax season.

Deductions, Brackets and Rates

Tax rates remained unchanged in 2025. You might have heard differently, but in 2025, they remain the same as they were in 2024, including the rates for capital gains.

Tax brackets increased slightly, meaning that you can make a bit more income this year without going into a new bracket.

There are two types of deduction available:

- **Standard deduction** - 2025 is \$15,750 if single and \$31,500 if married (which did increase by \$1,150 for a single filer and \$2,300 for a married couple from 2024). Also, \$1,600 is added for each individual over age 65.
- **Itemized Deductions** - If your deductions amount to more (from a short list of itemized deductions), than you are allowed to deduct more than the standard deduction. There are five main categories of allowable itemized deductions:
 1. **Medical deductions**, which did not change from 2024, and only the amount over 7.5% of Adjusted Gross Income is deductible.
 2. **State and Local Taxes**, which increased to a maximum deduction of \$40,000 in 2025 vs. \$10,000 in 2024. This category includes property tax and state and local income tax paid during 2025.
 3. **Interest paid on your home mortgage**, which is unchanged from 2024.
 4. **Charitable contributions**, which are unchanged from 2024.
 5. **Miscellaneous itemized deductions**, which are also unchanged from 2024.

New 2025 Deductions - separate from the standard or itemized deductions

Senior Deductions

There is an additional deduction of \$6,000 for each filer that has reached age 65 by December 31, 2025 (\$12,000 if both 65). Social Security is still taxable according to the same calculations used for prior years. The deduction phases out for seniors making more than \$75,000 for a single filer or \$150,000 for a joint filer.

Car Loan Interest Deduction

There is also a new deduction this year for car loan interest if you bought a new (not used) car in 2025 (and 2026-2028) if it was assembled in the US. This deduction phases out starting at \$100,000 of income if single, and \$200,000 if filing jointly.

Tip Deduction

For taxpayers whose W-2 reflects tip income, or who self-report tip income, they can deduct the lesser of the tip income from their W-2's or \$25,000. This deduction phases out starting at \$150,000 of income if single, and \$300,000 if filing jointly.

Overtime Deduction

For taxpayers whose W-2 reflects overtime pay income they can deduct the lesser of the overtime income from their individual W-2's or \$12,500 each. This deduction phases out starting at \$150,000 of income if single, and \$300,000 if filing jointly. Overtime on final paystubs may also be used if not provided on Form W2.

Tax Credits

The credit for children under 17 years old reported as dependents on your returns increases from \$2,000 to \$2,200.

The credit for an electric car ends on September 30, 2025, and the credits for insulation, storm windows, doors, furnaces, water heaters, solar power, geothermal energy and wind energy systems end on December 31, 2025.

2026 ACA Health Insurance Premium Subsidy Alert

Be cautious: Do not estimate your 2026 household Modified Adjusted Gross Income (MAGI) low when signing up for the 2026 ACA (Pennie in PA) health insurance coverage. If no further legislation is passed, you will have to pay back the full amount of any excess subsidy you received in advance. Previous payback limits will no longer exist. Plus, if your 2026 MAGI income is over 400% of the poverty level, you will have to pay back the full advanced subsidy. These paybacks will be added to your 2026 tax liability when we prepare your return in 2027!

There are several individual changes that go into effect in 2026, but this short summary addresses 2025 individual tax changes.

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