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THE STRAUSS REPORT

SUMMER 2025 TAX ALERT!

The OBBBA (One Big Beautiful Bill Act) was signed into law on July 4, permanently extending key Tax Cuts from the 2017 Tax Cuts and Jobs Act and introducing many new complex provisions, with different starting and ending dates. The key provisions are:

1. **The lower 1040 individual tax rates** (10%, 12%, 22%, 24%, 35% and 37%) which were set to expire after December 31, 2025, have been made permanent.
2. **The larger standard deduction** which started in 2017 will be increased, starting in 2025. For Married/Joint, the new amount is \$31,500 and for Singles it is \$15,750. There is also the modest increase for those over age 65. In the future, these amounts will be indexed for inflation. The additional amounts for those over 65 are still in place with this new law.
3. **There is a temporary senior deduction of \$6000 per person (added to the Standard Deduction beginning for 2025 and continuing through 2028 for individuals age 65 or older by year end.** This deduction is subject to an income phase out starting at \$75,000 for Single filers and \$150,000 for joint filers.
4. For those who might itemize, **the deduction for State and Local taxes** (including state income taxes and real estate taxes) will increase to \$40,000 (from the current \$10,000) for tax year 2025 and will be adjusted for inflation until it sunsets in 2030. However, there are income limitations: for 2025, taxpayers with modified adjusted gross income (ALL income) over \$500,000 are ineligible for the increased cap. This will increase annually by 1% until 2030.
5. **The limit on deduction of mortgage interest** for mortgages over \$750,000 is now permanent.
6. **The deduction for PMI (Mortgage Insurance Premiums)** which expired after the 2021 tax year is also permanently reinstated.
7. **Charitable contributions if you itemize will be limited (after tax year 2025!). Allowable contributions will be only** those above 0.5% of their AGI. If you do not itemize (after 2025!), there will be a maximum charitable deduction of \$1000 for single filers and \$2000 for married taxpayers.

8. Effective after-tax year 2025, itemized deductions will be limited/reduced for higher income taxpayers.
9. There is a new, albeit temporary (2025-2028) deduction (even if you do not itemize!) for **interest paid (up to \$10,000/year) on a loan to buy a qualifying (assembled in the United States!) passenger car**. Of course there is an income phase out starting with \$200,000 for MF Joint and \$100,000 for Single.
10. Important to note here: **the law did not change the current provision for taxable Social Security Benefits (50% or 85%)**.
11. **There are complex new rules for the deduction (i.e. no taxation) on certain cash tips and overtime pay. If you want specifics, please contact us.**
12. **Most Energy Credits, both for residential home improvement and purchase of electric vehicles will be repealed.** The Big home improvement credit will end after December 31, 2025 (which means DO IT NOW!) and the energy efficient vehicle credits for new and previously owned vehicles will end after September 30, 2025 (this tax year!)
13. **Gambling losses** (which previously were allowed up to winnings) will now be capped at 90% beginning in 2026.
14. The **expanded Child Tax Credit** of \$2000 will now be \$2200 for 2025 and beginning in 2026 will be subject to annual inflation adjustments.
15. **The Child and Dependent Care Credit will be enhanced for tax years after 2025.** There will be a larger credit percentage for lower income taxpayers (up to 50%) but never falling below 20%. The existing expense caps (maximum allowed for credit did not change and are still \$3000 for one dependent and \$6000 for two or more dependents. **However the amount eligible for the pretax dependent care assistance will be increased to \$7500 beginning in 2026 (up from the current \$5000).**
16. **There is a new type of long-term savings account for children (called Trump Accounts) to promote financial education, retirement readiness and asset accumulation for individuals under age 18.** There will be a one-time \$1000 deposit made into accounts for qualifying children born after December 31, 2024. Annual contributions are capped at \$5000 per beneficiary and cannot begin until after a mandatory 12 month waiting period after the bill's enactment (or July 4, 2026!). Earnings grow tax deferred (but there is no law yet about taxation upon distribution). It appears it can be used tax free for education or first-time home purchase.
17. **There is an expansion of 529 plans for K-12 education as well as for college and post college education after December 1, 2025.** The donation cap/year will

rise to \$20,000 from \$10,000. Expenses for postsecondary credentialing can now include “industry recognized post-secondary credentials- including approved training programs, testing fees for license exams and continuing education to maintain credentials. K-12 expenses can now include tuition at public, private or religious schools, books and materials, online materials, tutoring and testing fees, AP college fees for high school students and educational therapy for students with disabilities.

- 18. The Estate tax exemption was made permanent at \$15 million and indexed for inflation beginning in 2026.** However, the IL Estate tax exclusion is still \$4 million.
- 19. There are changes to eligibility for the Premium Tax Credit and all Education credits starting after 2025.** These include requiring new verification requirements, requirements for major life changes such as job loss, divorce or relocation (not just income reduction). Since this is starting in 2026, we will discuss this more in future Strauss Tax Reports.

This tax bill represents a significant shift in the individual tax landscape, with provisions that affect nearly every taxpayer category, including low-income households, seniors, high income earners and families with new homes and with children. Given the many changes to extra deductions, new and expanded credits, many of us may be able to itemize or save taxes in 2025.

We can review your individual tax situation for this year either this summer or in the fall and reduce withholding on wages or change your Estimated tax payments. However your final income may not be clear until closer to the end of the year, given capital gains from mutual funds and additional interest income which caused many of us to pay in 2025. One thing is clear: the upcoming tax season in 2026 will be very different than even last year – with the IRS and our software provider rushing to design new forms to meet the many changes in the tax code from this bill.

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We continue to have an active Facebook Page - which is updated often. We also post both our newsletter and tax law updates on our website: www.strausstax.com. Or please call us if you have a question! We are here, as always - on the phone, via Zoom or in person too, to answer your questions, and work to give you good tax and financial advice on retirement planning, estate, and trust taxes (after a loved one passes on) and the full range of the new and complex tax laws now.

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A handwritten signature in black ink, appearing to read "Judy Strauss", is written diagonally across the bottom right corner of the page.