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Summer 2025 ***THE STRAUSS REPORT***

Summer is almost here…. and so are tax and financial uncertainty….

The regular tax season ended on April 15. It ushered in many changes starting January 20th with possible more changes to come at the IRS and in the tax code. As of April 15, over $211 Billion in tax refunds have been issued (with an average amount of $3116) with over 101.4 million tax returns filed (96% electronically). Most people got their refunds quickly if electronically filed and direct deposited into their bank account. However, the number of clients asked to verify their identity and/or get Identity Protections Pins due to suspicion of fraud has increased dramatically. In addition, the IRS Commissioner Danny Werfel appointed by President Biden resigned on Inauguration Day and there have now been four, yes, four Acting Commissioners since that date. There is a nomination for a permanent Director, but it has not been acted on by Congress. The IRS employee base has also shrunk due to voluntary separations and terminations (or an 11% reduction in the IRS workforce to date) with the 2026 Budget aiming to reduce the number of employees by 20% mostly in Audit and Customer Service. The IRS says it needs 11,000 new hires to maintain phone support for 2026 and expects a 60% cut in IT staffing this year. It is estimated by the Center for Progress that these reductions would cost nearly a trillion dollars in tax revenue over ten years. The good news is that so far in 2025, I as an Enrolled Agent have been able to get through to the IRS – on the phone despite a very long hold time (unless I call after 7PM my time!) In addition, online tools from Where's my Refund and E Services for us have been vastly improved including the ability to upload replies to notices (called the Document Upload Tool) and get tax documents and transcripts.

In this summer tax newsletter we will review tax law changes to consider now - as you plan for 2025 taxes, including: your RMD - required minimum distributions and contributions from your IRA, your possible investment in energy saving home improvements, your investments for both income and tax planning with the higher interest rates and the stock market (high now but could change during the political uncertainty), and medical deductions as many of us (or our parents) are requiring more long term care. We will also discuss things we have been doing for clients - for taxes now, working with the IRS and others for you and assisting you or your beneficiaries after a death in the family.

SO WHAT HAPPENED – during this filing season?

1. **Some of us had more income in 2024 than in prior tax years and we also owed more taxes, some of us a lot more. Why?**
   - **First,** the Required Minimum Distributions are back, starting for those turning 73 in 2025 and continuing for the rest of us. The stock market was higher at the end of 2024 than in prior years so our RMD in 2025 is a lot more than last year (and we are also a year older). Many of us contributed to charities from our IRA withdrawals (QCD or Qualified Charitable Distributions) but our income was still higher than last year.
   - **Second,** many of us have investments in stock mutual funds - and the fund managers decided to sell both during the year and at the end of 2024. This created more capital gains than in prior years (while it reduced the uncertainty of the stock market). In addition, the fund managers chose to sell for gains last year but also since many people wanted to move their investments to safer 4% interest bearing choices, the fund managers had to sell for everyone to generate cash for those "leaving" the fund.
   - **Third,** interest rates are now the highest many of us have seen in quite a while. CDs and money market accounts as well as I Bonds have rates ranging from 4% - close to 5% and are "safe" investments as compared to the ups and downs of the stock market. As stated above, many of us have been pulling out of investments and keeping the funds in cash accounts- this is good for

income but then also created more taxable ordinary income on your tax return for 2024. While most of us like to have a" cash stash;" having huge chunks in checking accounts makes no sense and it was not uncommon to see **huge** jumps in ordinary income from interest and ordinary dividends this tax season. (FYI- Treasury bills/notes and savings bonds - all US government interest – are not taxable in IL!)

2. **A welcome surprise for many clients and many taxpayers** (including retired public workers and teachers) came from the **Social Security Fairness Act** proposed by then President Biden and signed into law in January 2025. This Act eliminated the Windfall Elimination Provision, and the Government Pension Offset which previously had reduced Social Security benefits for public employees receiving pensions. The impact of this Act is twofold: a retroactive one-time large benefit payment to those affected by the previous policies, covering payments back to January 2024 (with over 2.5 million retroactive payments made as of this week!) And a monthly increase in SSA benefits (of at least $360/month) beginning in April or May of 2025. Often the back payment just showed up in clients' bank accounts before a letter from SSA came in the mail (SSA never sends emails or calls you!) Given the substantial increase in income and therefore taxable Social Security benefits, we have been reviewing 2025 tax liability for many clients even before this newsletter. Please call or email us so we can help you change your withholding or your Estimated taxes for 2025, so you do not have yet another unwelcome tax surprise in 2026 tax filing season.
3. **SSA had a quite small increase for 2025 (2.5%)** while what we pay for Medicare keeps rising – $185/month from $174.70 in 2024. In addition, the tax tables, and the standard deduction for 2025 have both been adjusted for inflation. Also, an increase we do not notice but keeps creeping upward is the limit of wages on which we pay SSA tax- it is up to $176,1000 for 2025 up from $168,600 last year and only $142,800 in 2021. (FYI- it was only $106,800 back in 2011!)
4. **Many clients are now in the "modern" age** - paying their Estimated taxes online for both the IRS and IL. We provide detailed instruction worksheets, and you do not need an online account for this. You get an email confirmation - as well as see it debited from your bank account. **Please keep your completed ES worksheet with proof of payments for your 2026 taxes** and print out your **confirmation**. – and then get them to us next year at tax time. We have had some issues this year with incorrect amounts of ES paid and notices/refunds - we provide the worksheet to be accurate in what we include on your tax return and avoid problems too. We can check your IL payments online but not the IRS ones, if you have an online account with the IRS, you can confirm them.
5. **An increasing problem for you and for us now is making sure we have ALL** your tax documents. Many banks and investments firms have them ONLY online, so you never get paper copies unless you request them or "opt out" of online tax documents. We review what you had from the prior year and often must call and get tax documents from your brokers or help you find them online. This takes more time on our part and then we must start your tax return and then "go back to" it when we have all the missing documents. This rework increased the cost and time of completing your tax returen.

Your higher total income (including Social Security and Municipal Bond Interest) will impact on the amount you are paying for Medicare and your Medicare Drug Plan in 2026. The IRS and Medicare/Social Security exchange income information and you will receive letters informing you about higher costs (which get subtracted from your SSA benefits deposited into your bank account) are mailed in the late Fall. The increases start at a total income of $106.000 for Singles and $212,000 for Married/Joint. We have the chart for 2025; if you would like a copy, call, or email us so you will not be surprised later this year. The good news is this is a year-by-year computation, so if your income goes down you may not pay the higher Medicare premium in future years.

In addition, we now have substantially more extensions than in prior years. Some of us are older and did not "find" all the tax documents needed; others did not want to look at taxes this year and got information to us late so there were just not enough hours to do all the work before April 15. Others always get extensions – which are due by October 15th. The issue is that the extensions which we filed are NOT an extension to pay so there could be penalties and interest if you owe tax money. We can include penalties in what you owe but you may still get a notice from either the IRS or IL – or both. Call us or email your notice to us and we will review it and see what we can do for you. If it is small, it is probably easier and less expensive for you to just pay it.

We are also tracking refunds for clients - for 2024 tax returns, for amended returns from 2023 and 2024 and other years. We get Form 2848 (Power of Attorney) from you and follow up with the IRS on the phone or at the IRS Forum in Chicago this year on July 1-3 – and cheer with you when you get your refund, when we get penalties reduced and/or problems resolved.

SO WHAT CAN YOU BE DOING THIS SUMMER?

1. **We have computed the required minimum distributions for most clients**. **Please remember they must be taken out before December 31, 2025**. You can take your RMD out at one time (any time during the year) or monthly or quarterly as you wish. The RMD can come out of each IRA or only one IRA. It does not matter so long as the total required amount is withdrawn. The new SECURE ACT 2.0 ACT signed into law on December 29, 2022, reduced the missed RMD penalty from 50% to 25% starting this year. And, if the penalty is corrected in a timely manner, the penalty is reduced further to 10% - however I have NEVER had a client get a penalty or even a letter – ever! You can also make charitable contributions (QCD) directly from your IRA to the charity- this saves tax money since most of us are not itemizing now. In addition, the small deduction for contributions without itemizing is gone. You may want to consider **WHEN** to take your RMD this year – many of us wait until year-end, but there could be stock market volatility due to the political uncertainty and tariff issues...
2. **Make your home more energy efficient**! Energy Credits are back - thanks to the Inflation Reduction Act – big time starting in 2023. The credit is equal to the lesser of the sum of amounts paid for qualifying home improvements or an annual $1200 limit (with no lifetime exclusion). Qualified energy property (meeting **Energystar.gov** standards) include central air conditioners, furnaces, water heaters, exterior doors, exterior windows, including skylights, and insulation – each have a specific credit amount. (Please consider this big tax saver- we had just a few Energy credits for clients in this filing season… and they could be gone in the possible tax bill this year!)
3. **Some of us are thinking about downsizing** and decluttering - and selling our homes. The good news is that for most of us the profit (difference between sales prices minus expenses of sale and basis - cost plus improvements) is not taxable if under $250,000 if single and $500,000 if married. in addition if your spouse has died, ½ of the house gets a "stepped up" basis from his/her date of death.
4. **The floor for medical expenses is still 7.5%.** Most people do not itemize unless they have substantial medical (which often comes from medically required caregiving or nursing home expenses) or charitable deductions or an exceptionally large mortgage,
5. **Review your withholding**. Your income may be higher or lower in 2025 than in years past. We recommend that we review your withholding for 2025 (with the all-new W-4), so you might get more take-home pay which you might need now.
6. **Please review your health insurance now** to see what it covers and what it does not. Also, if you are furloughed or laid off, please check the cost of COBRA. You also might be eligible on your spouse's plan or through the Health Insurance Exchange due to special circumstances. Please be careful of less expensive high-deductible plans – they sound good but can be very costly if you require hospitalization or major medical treatment.

6**. Review your 401K/ IRA and Other Investments**

Many of us have several IRAs and investment accounts and have never or hardly ever reviewed how they are performing or what they are invested in. Consider:

- **Making lists** of all accounts, passwords, and contact information.
- **Make an appointment** with your broker or financial advisor to review performance.
- **Considering if this is a good time to change and/or consolidate investments**.
- **Reviewing your investments** and tax strategies with us or another objective professional.

7**. Read your Trust or Will - or have one done now!**

Many of us have not looked at our will or trust in five years - or often 10 or more years. And at least one third of us do not have even a will! Your will or trust defines who will manage your affairs and money if you become incapacitated or pass away. Your will or trust defines who will get your assets and by what percentage. **NOW is the best time** to review who your executor or trustee is and what you have - before it is too late. We work with attorneys in the area all the time and review trust documents with you for possible tax issues.

8. **Check your beneficiaries** on your IRAs, your company retirement accounts and any annuities. We discover many problems after clients pass away- it is best to review them now and avoid both tax issues and family problems later.

WHEW! IS THERE MORE? OF COURSE!!

- **The sweeping tax and spending bill backed by President Trump** includes significant changes to the US Tax Code and public benefit programs. This bill has passed the House but is still being reviewed in the Senate – and while it will cut taxes by $3.7 trillion, it could increase deficits by $2.4 trillion over the next decade according to an analysis by the nonpartisan Congressional Budget Office. If a tax bill is passed and signed, we will send out a TAX ALERT and post it on our website.
- **Beneficiaries of inherited IRAs (except the spouse) cannot "stretch" the IRA withdrawals over their lifetimes**. The entire account balance must be distributed within 10 years after the date of death.
- **Repeal of maximum age for traditional IRA contributions.** So long as there is earned wage or consulting) income, an IRA contribution can be made.

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STRAUSS TAX SERVICE NEWS! We continue to work with you, prepare your taxes, do tax planning, respond to IRS notices and work with your broker, your adult children, and your attorney on the phone, on Zoom or in person. Beth Austin (and her husband Chris) are invaluable in making sure your documents are safe and secure and provide you (and me!) with the best care and customer service. We send tax folders back to you via FEDEX and give you tracking information.

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**. 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.

Judy Strauss