Lottsa
TAX & ACCOUNTING SERVICES, INC.

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Dear Client,

On July 4, 2025, the President signed a new tax bill, "OBBB". There is some misinformation out there about this bill and how it might impact our 2025 tax returns. Here are some of the actual changes that will affect many taxpayers.

Deductions, Brackets and Rates

Tax rates did not increase or decrease from 2025, they are the same in 2025 as they were in 2024, including capital gains rates.

Marginal Tax brackets "expanded" slightly, meaning that you can make a bit more money this year without going into a new bracket.

There are two types of deductions available to every taxpayer: the standard deduction and itemized deductions. Each one reduces the amount of income subject to tax. You can use whichever one results in a larger deduction. Here are the details:

Standard Deduction: all Americans are allowed the standard deduction, which for 2025 is $15,750 if filing single, $31,500 if married and filing jointly, and $23,625 if filing Head of Household.

Additional Standard Deduction: Similar to 2024, each individual 65 and older on December 31st can add $2,000 to their standard deduction amounts if filing single or $1,600 per qualifying spouse if filing jointly. These additional standard deduction amounts also apply to blind individuals.

NEW Additional Deduction: New in 2025, taxpayers 65 and older on December 31st can claim an additional $6,000 deduction, regardless of whether they take a standard deduction or itemize their deductions. Higher income taxpayers will not qualify for this new additional deduction (it phases out for seniors making more than $75,000 for a single filer or $150,000 for a joint filer).

This deduction may have the effect of reducing taxes paid on Social Security, but no changes to Social Security taxation have been made by this bill.

Itemized Deductions: If you can come up with more than the standard deduction from the list of allowable itemized deductions you get to itemize your deductions. There are five main categories of allowable itemized deductions:

1. Medical deductions - did not change from 2024 and need to be pretty large in order to deduct them (only the amount that exceeds 7.5% of your adjusted gross income "counts").

2. State & Local Taxes - deductible cap increased to a maximum deduction of $40,000 in 2025 vs. only $10,000 in 2024. (This higher cap begins to phase out if your income exceeds $500,000). This deduction category includes property tax and state and local income tax paid during the year. **This change is likely the most significant in terms of the number of clients and the resulting impact that it has on returns.**

3. Interest paid on your home mortgage - unchanged from 2024 with one exception: the new tax law reinstates qualified Mortgage Insurance Premium payments as potentially deductible as a part of this category.

4. Charitable contributions, which are unchanged from 2024.

5. Miscellaneous 2% itemized deductions - same as 2024; these are now permanently disallowed except for gambling losses.

Car Loan Interest Deduction

There is also a new deduction this year for up to $10,000 of car loan interest if you bought a new (not used) car in 2025 that was assembled in the US and that is secured by an original purchase lien on the vehicle. This deduction phases out starting at $100,000 of income if single, and $200,000 if filing jointly. This amount is deductible in addition to the standard deduction, so you don't need to itemize.

Tip Deduction

For those folks whose W-2 reflects qualified tip income in a customarily and regularly tipped industry, or who self-report tip income, they can deduct up to $25,000 of their tip income. This deduction phases out starting at $150,000 of income if single, and $300,000 if filing jointly. This amount is deductible in addition to the standard deduction, so you don't need to itemize.

Overtime Deduction

For those folks whose W-2 reflects overtime pay income they can deduct up to $12,500 of the overtime income if single and $25,000 (combined) if filing jointly. This deduction phases out starting at $150,000 of income if single, and $300,000 if filing jointly. This amount is deductible in addition to the standard deduction, so you don't need to itemize.

Tax Credits

The credit for children reported as dependents on your returns increases from $2,000 to $2,200 with a maximum refundable credit of $1,400.

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

Trump Accounts

The OBBB creates an investment fund option for children under the age of 18. Contributions to the accounts are limited to $5,000 per year (adjusted for inflation after 2027). Additionally, all children born between Jan. 1, 2025, and Dec. 31, 2028, will be eligible for an initial $1,000 investment from the government. Contributions to Trump Accounts will be accepted after July 4, 2026. Additional regulations and guidance from Treasury are expected in the meantime.

After 2025

There are several individual changes that go into effect in 2026, but this short summary addresses only individual tax changes that take effect in 2025. We can help you plan for any major tax events such as these law changes, retirement, home sales or inheritances – please contact our office for an appointment.

Please note there are still many unanswered practical questions, such as how some of this information will be reported to taxpayers and/or the IRS. This is meant only as a quick overview of changes to 2025 Federal taxes. Most of these new provisions include nuanced language that may limit (or eliminate) a specific taxpayer's qualification. Also, these are Federal changes, and it remains to be seen if and when states will change local tax codes to conform with the Federal.

If you believe these changes warrant reviewing your existing 2025 tax plan, please contact the Lottsa offices at 612.338.7459.

Sincerely,

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