2025 NATIONAL INCOME TAX WORKBOOK

Land Grant University Tax Education Foundation

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Pg 555

Chapter 14

New & Expiring Legislation

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Pg 555

Learning Objectives

- Identify tax laws that were enacted or changed in late 2024 and in 2025.
- Identify individual income tax exclusions, deductions, and credits that expired in 2024, and are set to expire in 2025 and future years.
- Identify tax provisions that became permanent in 2025.

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Dependent Care Assistance Program

Pg 575

Referred to as Dependent Care FSAs

Increased from $5,000 ($2,750 MFS) to $7,500 ($3,750 MFS)

These amounts are excluded from income

Beginning in 2026

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AMT

Pg 575

- Increased AMT exemption amounts are made permanent: $109,400 for MFJ, $70,300 for single
- Phaseout threshold: $500,000, $1,000,000 for MFJ in 2026
- Phaseout rate: 50% for higher income taxpayers
- Indexed for inflation
- Applies to tax years beginning after December 31, 2025.

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Car Loan Interest

Pg 576

Temporary deduction for qualified passenger vehicle loan interest

- For tax years 2025 through 2028
- Loan must be incurred after December 31, 2024
- For the purchase of a passenger vehicle for personal use
- Secured by a first lien
- Must include VIN on the tax return

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Car Loan Interest

Pg 576

Qualified loan interest does not include:

1. Fleet sales
2. Commercial vehicles not used for personal purposes
3. Lease financing
4. Vehicle with a salvage title
5. Vehicle intended to be used for scrap or parts

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Car Loan Interest

Pg 576

Deductible Interest cannot exceed $10,000 for the tax year.

Phase out when modified adjusted gross income exceeds $100,000, $200,000 for MFJ.

Deduction reduced $200 for each $1,000 (or portion thereof) that exceeds MAGI threshold.

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Car Loan Interest

Pg 576

Example:
George purchased & financed a new car in 2025.
$4,200 Interest paid in 2025
George files MFJ with MAGI of $210,000.
$210,000 - $200,000 = $10,000
$10,000/$1,000 = 10 x $200 = $2,000 Reduction
$4,200 - $2,000 = $2,200 Deduction

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Car Loan Interest

Pg 576

Qualified passenger vehicle must meet the following requirements:

1. Original use commences with the taxpayer
2. Manufactured primarily for use on public streets, roads, & highways
3. Vehicle has at lease 2 wheels
4. GVW < 14,000 pounds
5. Treated as a motor vehicle for purposes of title II of the Clean Air Act
6. Final assembly occurred within the U.S.

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Car Loan Interest

Pgs 576-577

Interest on refinancing qualifies for the deduction if:

1. Secured by a first lien on the vehicle
2. Amount refinanced cannot exceed the original indebtedness

Indebtedness cannot be owed to a related person.

Taxpayers who do not itemize may claim the deduction as a below the line adjustment to gross income.

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Car Loan Interest

Pg 576

VIN decoder website to locate plant of manufacture information

www.nhtsa.gov/vin-decoder

New Schedule 1A Part IV transfers to Form 1040, line 13b

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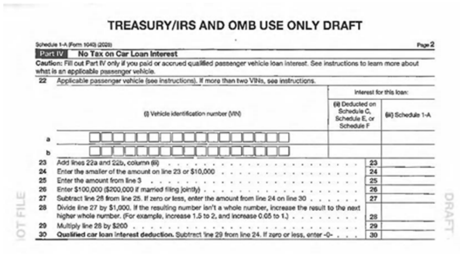
Car Loan Interest

Pg 576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Schedule 1-A (Form 1040) (2025) Page 2

Part IV **No Tax on Car Loan Interest**

Caution: Fill out Part IV only if you paid or accrued qualified passenger vehicle loan interest. See instructions to learn more about what is an applicable passenger vehicle.

22 Applicable passenger vehicle (see instructions). If more than two VINs, see instructions.

	(i) Vehicle identification number (VIN)	Interest for this loan: (ii) Deducted on Schedule C, Schedule E, or Schedule F	(iii) Schedule 1-A
a			
b			

23	Add lines 22a and 22b, column (iii)	23	
24	Enter the smaller of the amount on line 23 or $10,000	24	
25	Enter the amount from line 3	25	
26	Enter $100,000 ($200,000 if married filing jointly)	26	
27	Subtract line 26 from line 25. If zero or less, enter the amount from line 24 on line 30	27	
28	Divide line 27 by $1,000. If the resulting number isn't a whole number, increase the result to the next higher whole number. (For example, increase 1.5 to 2, and increase 0.05 to 1.)	28	
29	Multiply line 28 by $200	29	
30	**Qualified car loan interest deduction.** Subtract line 29 from line 24. If zero or less, enter -0-	30	

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Child & Dependent Care Tax Credit

Pg 577

IRC 21(a) Percentage of qualifying expenses is 50%

Reduced by 1% for each $2,000 of AGI >$15,000, but not below 35%

Further reduced 1% for each $2,000 ($4,000 MFJ) of AGI > $75,000 ($150,000 MFJ) but not below 20%

Applies to tax years beginning after Dec 31, 2025.

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CDCTC Examples

Not in Book

Example 1 – Single Parent

AGI: $14,000

Qualifying Expenses: $6,000

Applicable %: 50%, no phase-out (AGI < $15,000)

Credit: $6,000 x 50% = $3,000

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CDCTC Examples

Not in Book

Example 2 – Single Filer

AGI = $25,000

$25,000 - $15,000 (AGI Limit) = $10,000

5 - $2,000 increments = 5 x 1% = 5% Reduction

Applicable %: 50% - 5% = 45%

Qualifying Expenses: $4,000

Credit: $4,000 x 45% = $1,800

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CDCTC Examples

Not in Book

Example 3 – MFJ with $160,000 AGI

1st - $160,000 - $15,000 = $145,000

73% Reduction, capped at 35%

2nd - $160,000 - $150,000 = $10,000

3 - $4,000 (round up) increments = 3%

35% - 3% - 32%

Qualifying Expenses: $6,000

Credit: $6,000 x 32% = $1,920

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CDCTC Examples

Not in Book

Example 4 – MFJ with $225,000 AGI

1st – 50% reduced to 35%, AGI > $15,000

2nd - $225,000 - $150,000 = $75,000

19 - $4,000 increments (round up) = 19%

35% - 19% = 16%, capped at 20%

Qualifying expenses: $6,000

$6,000 x 20% = $1,200

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Adoption Credit

Pg 577

$17,820 per child nonrefundable credit in 2025

IRC 23(a) Up to $5,000 is a refundable credit.

Cannot be carried forward

Non-refundable portion still carried forward up to 5 yrs

Applies to tax years beginning after Dec 31, 2024

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Increased Child Tax Credit

Pg 577

IRC 24(h) increases the CTC to $2,200 per qualifying child beginning in 2025

Made permanent

Increased by inflation adjustment after 2025

$1,400 refundable portion increased by inflation adjustments after 2024

$500 credit for other dependents is made permanent

Must have SSN for taxpayer and qualifying child

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Education Credits

Pg 577-578

American Opportunity Tax Credit

Up to $2,500 per eligible student per year

Must have EIN of institution

Lifetime Learning Credit

$2,000 Max Cr (20% x $10,000 qualified expenses)

IRC 25A(g)(1) requires SSN of taxpayer and name & SSN of student (if not the taxpayer) for both credits.

Applies to tax years beginning after Dec 31, 2025

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Energy Efficient Home Improvement Cr Pg 578

IRC 25C(h) Originally set to expire Dec 31, 2032

Terminated for property placed in service after Dec 31, 2025.

Includes:

- Qualified energy efficiency improvements
- Residential energy property expenditures
- Home energy audits

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Energy Efficient Home Improvement Cr Pg 578

IRC 25D Residential clean energy property credit

No credit for property place in service after Dec 31, 2025

IRS updated Fact Sheet 2025-01

Updates information about the credit

www.irs.gov/pub/taxpros/fs-2025-01.pdf

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Energy Efficient Home Improvement Cr Pg 578

IRC 25C extended & amended by IRA Pub. L. No. 117-169

Proposed regs would provide definitions and general rules regarding IRC 25C.

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Clean Vehicle Credits

Pgs 579 & 580

IRC 30D(h) New Clean Vehicle Credit
IRC 25E Previously Owned Clean Vehicle Credit
Originally set to expire Dec 31, 2032
Terminated for vehicles acquired after Sept 30, 2025

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Tax Credit for Contributions to Scholarship Granting Organizations

Pg 579-580

NEW – I.R.C. 25F
For tax years ending after Dec 31, 2026
Allows a credit to US citizen or resident
- For qualified contributions to a scholarship granting organization

Credit cannot exceed $1,700
Nonrefundable. Carry forward 5 years

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Tax Credit for Contributions to Scholarship Granting Organizations

Pg 579

Scholarship Granting Organization is:
- IRC 501(c)(3) organization AND
- IRC 501(a) exempt from tax
- Does not include a private foundation

Reduced by any State tax credits
Contribution used for the credit cannot also be used as a charitable contribution for IRC 170

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Tax Credit for Contributions to Scholarship Granting Organizations
Pg 579

Must meet the following requirements:

- Provide scholarships to 10 or more students who do not all attend the same school
- Spend 90% or more of its income on scholarships
- Provide scholarships for qualified elementary or secondary qualified education expenses

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Tax Credit for Contributions to Scholarship Granting Organizations
Pg 579

- Provide a scholarship to eligible students
  - 1st Priority: Students awarded $ the prior school year
  - 2nd Priority: Any eligible students who have a sibling who was awarded a scholarship from the organization
- Does not earmark or set aside contributions for scholarships on behalf of any student

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Tax Credit for Contributions to Scholarship Granting Organizations
Pg 579

- Verifies the annual household income and family size of eligible students who apply
- Limits the awarding of scholarships to eligible students who are a member of a household for which the income does not exceed the threshold limit

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Tax Credit for Contributions to Scholarship Granting Organizations

Pg 579

Eligible Student means:

- Individual who is a member of a household
- Income is not > 300% of the area median gross income
  - For calendar year prior to applying for the scholarship
- Eligible to enroll in public elementary or secondary school

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Tax Credit for Contributions to Scholarship Granting Organizations

Pg 580

Qualified Contributions means:

- Cash contribution to a scholarship granting organization
  - To fund scholarships for eligible students
  - Within the state in which the organization is listed

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Tax Credit for Contributions to Scholarship Granting Organizations

Pg 580

IRC 139K – New!

Grants an exclusion from gross income for amounts received after 2026

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Premium Tax Credit Changes
Pg 580

T.D.10019 – Amends definition of coverage month for calculating PTC

Coverage month if premium paid is sufficient to avoid termination for that month.

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Premium Tax Credit Changes
Pg 580

T.D.10019 - Amends computing TPs monthly PTC if premium for a coverage month is unpaid.

Final Regs clarify when an individual is considered to be not eligible for coverage under a state's basic health program.

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Premium Tax Credit Changes
Pg 580-581

I.R.C. 36B – Repayment cap on APTC is eliminated.

For tax years beginning after Dec 31, 2025

Rev Proc 2025-25 – Provides indexing adjustment to the applicable percentage table used to calculate PTC.

For tax years beginning in 2026

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New Energy Efficient Home Credit

Pg 581

I.R.C. 451L(h) – Expires for homes constructed after June 30, 2026

Originally set to expire on Dec 31, 2032.

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Increased Standard Deduction

Pg 581

Made permanent for tax years after 2025

2025 Standard Deduction

$31,500 MFJ

$15,750 S & MFS

$23,625 HoH

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Increased Standard Deduction

Not in Book

2026 Standard Deduction

$32,200 MFJ

$16,100 S & MFS

$24,150 HoH

(Chapter 12, Page 482)

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Chapter 10
Issue 3
(Page 375)

40

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Issue 3: Itemized Deductions p.375

- Keep in mind that due to the TCJA of 2017, only 8-10% of taxpayers itemized their deductions between 2018 and 2024.
- The SALT limitation under OBBBA increased from $10K to $40K, effective 2025-2029
- In addition, under OBBBA, seniors potentially receive a higher standard deduction
- It will be interesting to see how the 8-10% of taxpayers itemizing plays out starting with the 2025 and later tax years

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Medical and Dental Expenses p.375

- I.R.C. § 213 allows taxpayers to deduct unreimbursed medical expenses for:
  - themselves, their spouse, or dependents
  - that exceed 7.5% of their adjusted gross income (AGI).
- This deduction is claimed on Schedule A (Form 1040), lines 1–4.

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Medical and Dental Expenses p.376

- Divorced or Separated parents
  - Child treated as dependent of both parents
  - Each parent may claim medical expenses paid

Example 10.14

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Medical and Dental Expenses p.376

- Reimbursements
- Received in current year – reduce current year expenses
- Expenses deducted in prior year
  - Received in current year – include as income on Sch 1 (1040)
  - If for specific medical expenses – reduce total medical expenses in current year

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Medical and Dental Expenses p.376

- Substantiation of Deductions
  - Date and amount paid
  - To whom paid
  - Nature of services rendered
  - Person to whom medical expenses were rendered

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Taxes You Paid
p.377

The deduction for state and local taxes (SALT):
- Capped at $40,000 ($20,000 for married filing separately) in 2025.
- This limit applies to taxes reported on Schedule A (Form 1040), lines 5–7.
- The cap does not apply to foreign income taxes or state and local property taxes incurred in a trade, business, or income-producing activity.

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Taxes You Paid
p.377

- Income Tax
- Types of Taxes:
  - State & local, foreign, income, war profits & excess profits taxes.
  - May be withheld, paid as estimated payment, or paid with prior year return.

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Taxes You Paid
p.377

- Sales Tax
- Can choose between deducting state & local sales tax or deducting state income taxes.
- State & local sales tax option
  - Actual expenses
  - Optional sales tax tables

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Taxes You Paid
p.378

Real Estate Tax
- State & local taxes on real property
  - Does not include special assessments
  - Prorate between buyer & seller

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Taxes You Paid
p.378

- Personal Property Tax
  - Based on value alone
  - Imposed on a yearly basis
  - Ex: car registration based on car's value

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Interest You Paid
p.378

- Taxpayers who itemize deductions can deduct home mortgage interest and points.
- Home Mortgage Interest-For loans taken out on or before December 15, 2017, the deduction limit is $1,000,000 ($500,000 for MFS).
- For loans taken out after that date, the limit is $750,000 ($375,000 for MFS). The deduction applies only if the loan proceeds are used to buy, build, or improve the home securing the loan. OBBBA made the new limits permanent.

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Interest You Paid
p.378

- Taxpayers can deduct interest paid on loans used to purchase investment property as an itemized deduction. The deductible interest is limited to the taxpayer's net investment income. Excess investment interest is carried over.

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Gifts to Charity
p.379

- Taxpayers who itemize deductions can deduct charitable contributions of money or property made to qualified organizations for public purposes.
- For single cash donations of $250 or more, the taxpayer must get a written acknowledgment from the organization at the time of the donation.

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Gifts to Charity
p.379

- Contributions to political candidates, parties, lobbying organizations, and groups like bar associations, chambers of commerce, civic leagues, country clubs, social clubs, homeowner's associations, and labor unions are not tax deductible.

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Casualty and Theft Losses p.379

- From 2018 to 2025, individual taxpayers can only deduct personal casualty or theft losses if they are caused by a federally declared disaster.
- H.R.1 has extended this permanently
- A taxpayer can deduct personal casualty losses not related to a federally declared disaster, but only up to the amount of personal casualty gains.

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Casualty and Theft Losses p.379

- The Federal Disaster Tax Relief Act of 2023 signed into law on 12/12/24, provides extended tax relief for disaster-related personal casualty losses, including losses from wildfires and a train derailment.
- This is a big issue and covered in Issue 7 & Chapter 14

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Miscellaneous Itemized Deductions p.380

- Before 2018, a taxpayer could deduct miscellaneous itemized deductions exceeding 2% of their AGI, including unreimbursed employee expenses and investment expenses.
- The list of the most common 12 is on page 380
- Miscellaneous itemized deductions subject to the 2%-of-AGI floor were suspended for tax years 2018 through 2025 and is now permanent under H.R.1
- However, employees can exclude reimbursed expenses from their income if the reimbursement is made under an employer's accountable plan. See page 381-382 for a sample Accountable Plan

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Other Itemized Deductions p.383

- The suspension of the 2%-of-AGI floor for miscellaneous itemized deductions does not affect certain expenses of nongrantor trusts and estates. Itemized deductions that are not classified as miscellaneous itemized deductions remain unaffected.
  - Deduction for interest (I.R.C. § 163).
  - Deduction for taxes (I.R.C. § 164).
  - Deduction for casualty or theft losses (I.R.C. § 165(a)).

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Other Itemized Deductions p.383

-
  - Deduction for charitable contributions and gifts (I.R.C. § 170).
  - Deduction for medical and dental expenses (I.R.C. § 213).
  - Deduction for impairment-related work expenses.
  - Deduction for estate tax on income in respect of the decedent (I.R.C. § 691(c)).

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Other Itemized Deductions p.383

- Deduction for personal property used in a short sale.
- Deduction under I.R.C. § 1341 for restoring substantial amounts held under claim of right.
- Deduction under I.R.C. § 72(b)(3) for annuity payments that cease before the investment is recovered.
- Deduction under I.R.C. § 171 for amortizable bond premiums.
- Deduction under I.R.C. § 216 for expenses related to cooperative housing corporations.

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Case Scenario

p.383

- Aggie Coleman, a single taxpayer, had a 2025 AGI of $172,000. Her itemized deductions exceeded the $15,750 standard deduction.

FIGURE 10.6
Aggie Coleman's 2025 Schedule A (Form 1040) Expenses

Expense	Actual Amount	Deductible Amount
Dental surgery (7.5% × $172,000 AGI = $12,900)	$2,650	$ 0
State income tax	9,720	
Real property tax	3,165	12,885
Home mortgage interest ($400,000 loan to purchase a residence in 2025)	17,200	17,200
Cash contribution to a public charity	200	200
Total	$32,935	$30,285

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Case Scenario

p.384

- Figure 10.7 – Sch A
- H.R.1 has increased SALT limitation from $10K to $40K, so Aggie is able to deduct all of her SALT of $12,885, increasing her Itemized Deductions from $27,400 to $30,285

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Chapter 14

(Page 581)

63

Miscellaneous Itemized Deductions Pg581

OBBBA 70110 permanently eliminates I.R.C. 67 Miscellaneous Itemized Deductions subject to 2% AGI floor.

Includes: investment expenses, legal fees, union dues, & unreimbursed business expenses

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Miscellaneous Itemized Deductions Pg 581

Beginning in 2026, special exemption for unreimbursed educator expenses allowed as an itemized deduction with no dollar limit

$ 300 above the line deduction remains available as per IRC 62

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Miscellaneous Itemized Deductions Pg581

- *Eligible educator* defined:
  - K-12 teachers, instructors, counselors, interscholastic sports administrators and coaches, principals, and certain aides
- *Eligible educator expenses* include:
  - Certain nonathletic instructional equipment
    - Books, supplies, equipment

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Itemized Deductions

Pg 582

Permanently repeals the Pease limitation
Allowable itemized deductions limited
Applies to TPs in 37% bracket
For tax years beginning after Dec 31, 2025

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Itemized Deductions

Pg 582

New limit reduces all itemized deductions by 2/37 of the lesser of

- Total itemized deductions or
- Taxable income > 37% bracket

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Itemized Deductions

Pg 582

Ex 14.1 (Using 2026 rates)
37% bracket threshold is $640,600
AGI $800,000, Itemized deductions $125,000
Taxable income $675,000
Itemized deductions reduced by
    2/37 of the lesser of
    $125,000 itemized deductions or
    $159,400 ($800,000 - $640,600)

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Moving Expenses Deduction
Pg 582

- Beginning 2026, IRC 217(k) permanently repeals the deduction for moving expenses except
  - Certain Armed Forces
  - Intelligence Community personnel

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Moving Expenses Exclusion
Pg 582

- Beginning 2026, IRC 132 permanently eliminates the exclusion from income for reimbursed moving expenses except
  - Certain Armed Forces
  - Intelligence Community personnel

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Deduction for Personal Exemption
Pg 583

I.R.C. 151(d)(5) is amended

Permanently terminates personal exemption deduction

$6,000 add'l deduction for seniors

Tax years 2025 - 2028

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Deduction for Personal Exemption

Pg 583

Qualified Individual

- TP age 65 or older
- Joint return – spouse age 65 or older
- Each qualifies for the $6,000
- If married, must file a joint return
- SSN required

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Deduction for Personal Exemption

Pg 583

Limitation based on MAGI

- $6,000 reduced by 6% (not below $0)
- MAGI > $75,000 ($150,000 MFJ)

Deduction available for itemizing and non-itemizing TPs.

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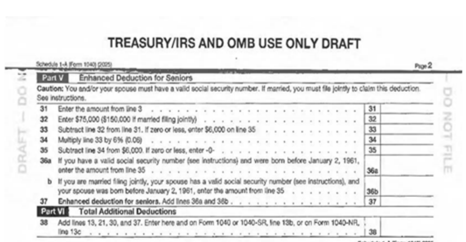
Deduction for Personal Exemption

Pg 583



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Schedule 1-A (Form 1040) (2025) Page 2

DRAFT — DO NOT FILE

Part V **Enhanced Deduction for Seniors**

Caution: You and/or your spouse must have a valid social security number. If married, you must file jointly to claim this deduction. See instructions.

31	Enter the amount from line 3	31	
32	Enter $75,000 ($150,000 if married filing jointly)	32	
33	Subtract line 32 from line 31. If zero or less, enter $6,000 on line 35	33	
34	Multiply line 33 by 6% (0.06)	34	
35	Subtract line 34 from $6,000. If zero or less, enter -0-	35	
36a	If you have a valid social security number (see instructions) and were born before January 2, 1961, enter the amount from line 35	36a	
b	If you are married filing jointly, your spouse has a valid social security number (see instructions), and your spouse was born before January 2, 1961, enter the amount from line 35	36b	
37	**Enhanced deduction for seniors.** Add lines 36a and 36b	37	

Part VI **Total Additional Deductions**

38	Add lines 13, 21, 30, and 37. Enter here and on Form 1040 or 1040-SR, line 13b, or on Form 1040-NR, line 13c	38	

Schedule 1-A (Form 1040) 2025

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Deduction for Personal Exemption
Pg 583

$5,200 Personal Exemption still needed
- Qualifying relative
- Indexed for inflation

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Qualified Residence Interest
Pg 583

Home mortgage acquisition debt limit
$750,000 ($375,000 MFS)
Home equity loan deduction disallowance
Made permanent after Dec 31, 2025
Indebtedness incurred before Dec 18, 2017
Limitation $1,000,000 ($500,000 MFS)

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State & Local Tax Deduction
Pg 583

I.R.C. 164(b)(6) is amended
2025 - SALT cap $40,000 ($20,000 MFS)
2026 - SALT cap $40,400 ($20,200 MFS)
2027 – 2029 limit is 101% of the dollar amount of preceding year.
2030 – SALT cap back to $10,000 ($5,000 MFS)

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State & Local Tax Deduction

Pg 583

Phasedown of SALT limit based on MAGI

Reduced by 30% of excess MAGI >threshold amount

- **2025** - $500,000 ($250,000 MFS)
- 2026 - $505,000 ($252,500 MFS)
- 2027 thru 2029 – 101% of dollar amount of preceding year

Cannot reduce below $10,0000

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State & Local Tax Deduction

Pg 583

Example (Not in Book)

MFJ with MAGI $525,000

SALT $40,000

$525,000 - $500,000 = $25,000

$25,000 x 30% = $7,500 SALT reduction

$40,000 - $7,500 = $32,500 SALT Deduction

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Limitation on Wagering Losses

Pg 584

Deduction for wagering losses

- Limited to 90% of such losses and
- Limited to wagering gains
- Reported as Miscellaneous Itemized Deduction not subject to 2% floor.
- Cannot net

Made permanent after Dec 31, 2025

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Limitation on Wagering Losses

Pg 584

- Wagering Losses Include:
  - Actual cost of wagering
  - Travel, lodging, & other expenses
- Includes Professional Gamblers
- Remember: Free rooms are not free, they are taxable income.

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Limitation on Wagering Losses

Not in Book

Susan wins $ 20,000 and loses $ 20,000 at the casino

$ 20,000 x 90% = $ 18,000 loss limitation

$ 20,000 gambling income reported

$ 18,000 gambling loss reported as itemized deduction (not subject to 2%)

Reminder: Taxpayers lose the benefit of the gambling loss if they do not itemize. Be careful! Some taxpayers will attempt to report the net $ 2,000 (example above) as gambling winnings

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Limitation on Wagering Losses

Not in Book

Susan wins $ 50,000 and loses $ 20,000 at the casino

$ 20,000 x 90% = $ 18,000 loss limitation

$ 50,000 gambling income reported

$ 18,000 gambling loss reported as itemized deduction (not subject to 2%)

Reminder: Taxpayers lose the benefit of the gambling loss if they do not itemize. Be careful! Some taxpayers will attempt to report the net $ 32,000 (example above) as gambling winnings.

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Limitation on Wagering Losses

Not in Book

Susan wins $ 8,000 and loses $ 10,000 at the casino

$ 10,000 x 90% = $ 9,000 loss limitation

$ 8,000 gambling income reported

$ 8,000 gambling loss reported as itemized deduction (not subject to 2%)

Reminder: Gambling losses limited to gambling income.

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Charitable Contributions

Pg 584

IRC 170(b)

Beginning in 2026, H.R.1 imposes a new floor on the charitable deduction

- Individuals
  - Reduced by 0.5% of contribution base (typically AGI)
  - 60% contribution limit made permanent
  - 5-year carry forward

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Cash Contributions

Pgs 584-585

I.R.C. 170(p)

Charitable Contribution for Non-Itemizers

Above the line deduction

Maximum deduction $1,000, $2,000 MFJ

Must be cash contribution

Beginning in 2026

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Questions

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Digital Assets

Pg 585

Final Regs for ordering rules for 2025

Held by Broker

TP does not give broker adequate identification – use first-in, first-out rule.

Adequate identification:

- Purchase date & time or
- Purchase price or
- Standing order

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Casualty Losses

Pgs 586-587

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FDTRA of 2023

Pg 586

Major disaster declared by president
Between Jan 1, 2020, and Feb 10, 2025
Incident period began
- on or after Dec 28, 2019, and
- on or before Dec 12, 2024 and
- ended no later than Jan 11, 2025

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FDTRA of 2023

Pg 586

Qualified wildfire disaster
- Declared after 2014
- Compensation for expenses & losses excluded
- Relief payments received 2020 – 2025
  - Excluded from TP gross income
  - Not compensated by insurance
  - No increase or adjustment to basis
- Claim can be made up to 1 yr after 12/31/24

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Personal Casualty Losses

Pg 587

- Casualty Loss Calculation
  - Lesser of:
    - Adjusted Basis or decrease in FMV
  - Less Insurance
  - Loss Limitations:
    - $ 100 per event
    - 10% of AGI

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Personal Casualty Losses
Pg 587

Special rules for **qualified disaster-related** personal casualty losses.

- The 10% of AGI limitation does not apply and the $100 reduction is increased to $500
- Allowed as a deduction in addition to the standard deduction

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Personal Casualty Losses
Pg 587

Qualified disaster area

- Declared by President
- Beginning Jan 1, 2020
- Ending July 4, 2025

Personal casualty losses not related to a federally declared disaster can still offset casualty gains.

Because of the retroactivity, may need to file amended returns.

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Example 10.21 Amended Return for Hurricane IAN
Chapter 10, Pgs 407 - 411

- Chris and Kay Smith owned a second home in Fort Myers, Florida, purchased in 2004 with an adjusted basis of $225,000. Hurricane Ian, declared a federal disaster on September 29, 2022, caused significant damage to the property.
- Chris and Kay's second home had a fair market value of $505,000 before the loss and $420,000 after the loss. They received a $40,000 insurance settlement in June 2023, and their AGI for 2023 was $487,000.

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Example 10.21 Amended Return for Hurricane IAN
Chapter 10, Pgs 407 - 411

- Figure 10.16 and 10.17 reflect the loss (-0-) and tax liability on the 2023 return as originally filed.
- Figure 10.18 on pages 409, 410, and 411 reflect the completion of the appropriate amended tax forms resulting in a refund of $14,240.

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Personal Casualty Losses

Pg 587

I.R.C. 165(h)(5) amended

- Includes State declared disaster
  - Any natural catastrophe or
  - Regardless of cause, magnitude of damage warrants a disaster declaration
- After Dec 31, 2025

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Health Savings Accounts

Pg 588

Notice 2024-71

Condoms now a medical expense.

Eligible to be paid or reimbursed under a Health FSA, Archer MSA, HRA or HSA.

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Health Savings Accounts Pg 588

Notice 2024-75

Expands list of preventive care benefits

- OTC oral contraceptives
- condoms
- breast cancer screening
- continuous glucose monitors
- insulin for preventing exacerbation of diabetes or secondary condition.

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State Paid Family & Medical Leave Payments Pg 589

Rev Rul 2025-4

1. Required employer & employee contributions
   - Are state taxes
   - W/H from income is itemized deduction
   - Subject to SALT limit
   - ER share is not included in EE gross
   - Employer can deduct amount it pays

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State Paid Family & Medical Leave Payments Pg 589

2. Benefits paid to Employee
   - Are included in EE income
   - Not wages for FUTA
   - Not sick or disability pay, more like SS benefits

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State Paid Family & Medical Leave Payments
Pg 589

3. Benefits paid to EE
   - Because of a serious health condition
   - Excluded from EE's gross income
   - Attributable to ER contributions that were excluded from EE gross income included in EE's gross

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Student Loans Discharged
Pg 589

Section 70119
- IRC 108(f)(5)
- Permanently excludes from gross income student loans discharged because of death or permanent disability of the student
- Requires SSN to be shown on the return
- Amendment applies beginning 2026

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Employer Payments of Student Loans
Pg 589

I.R.C. 127(c)(1)(B)
- Made permanent
- Beginning in 2026

- $5,250 exclusion limit adjusted for inflation
- Beginning in 2027

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Social Security Fairness Act Pg 590

Repeals provision that reduces SS benefits for individuals who receive other benefits from a state or local government.

Increases SS benefits for the following workers

- Teachers, firefighters, police officers
- Fed EEs covered by Civil Service Retirement
- People covered by foreign SS system

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Social Security Fairness Act Pg 590

Eliminates government pension offset (GPO) which reduces SS Benefits for spouses, widows, and widowers who receive their own gov't pensions.

Effective for benefits payable after Dec 2023.

Feb 25, 2025 SSA began adjusting benefit payments.

Beneficiaries to receive a one-time payment.

Retroactive to Jan 2024

Receive new monthly benefit April 2025

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Social Security Fairness Act Pg 590

Practitioner Note

Lump Sum Election

Lump sum payment from earlier year

Calculate using current year's income or

Using income from the earlier year

Making the election

Check the box on line 6c of Form 1040

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Extension of Reduced Rates

Pg 590

- IRC 1(j)
- The federal income **tax bracket** schedule and **lower tax rates** made by the TCJA are made **permanent**.
- Expanded income range for the capital gains brackets also made permanent.
- 10%, 12%, and 22% brackets receive an extra year of inflation adjustment
- Beginning 2026

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No Tax on Tips

Pg 591

- Effective 2025 thru 2028
- Deduction limited to $25,000
- Only for occupations that typically receive tips
  - Specified Services (per QBI 199A) do NOT qualify
- Deduction is reduced (but not below zero)
- Phase out is $100 for each $1,000 of MAGI exceeding:
  - Joint - $300,000
  - All others - $150,000

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No Tax on Tips

Pg 591

Cash tips paid by cash, credit card or tip-sharing.

Tips must be paid voluntarily

Must be included on:

Forms W2	Forms 1099	Form 4137 (Unreported Tips)	1099-K

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No Tax on Tips — Pg 591

Taxpayer with a trade or business
- Cannot have a loss

Married taxpayers – must file a joint return.

Must report SSN on return

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No Tax on Tips — Pg 591-592

Specifically included business:
- Food establishments (if tipping is customary)
- Barbers and hair care
- Nail care
- Esthetics
- Body and spa treatment

IRS will issue a list of qualifying occupations

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No Tax on Tips — Pg 591

IRS Proposed Regulations

List of businesses that receive tips:

100s – Beverage and Food Service
200s – Entertainment and Events
300s – Hospitality and Guest Services
400s – Home Services
500s – Personal Services
600s – Personal Appearance and Wellness
700s – Recreation and Instruction
800s – Transportation and Delivery

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No Tax on Tips


TREASURY/IRS AND OMB USE ONLY DRAFT

SCHEDULE 1-A (Form 1040)

Additional Deductions

2025

Part I Modified Adjusted Gross Income (MAGI) Amount

1 Enter the amount from Form 1040, 1040-SR, or 1040-NR, line 11b

2a Enter any income from Puerto Rico that you excluded

b Enter the amount from Form 2555, line 45

c Enter the amount from Form 2555, line 50

d Enter the amount from Form 4563, line 15

e Add lines 2a, 2b, 2c, and 2d

3 Add lines 1 and 2e

Part II No Tax on Tips

4 Qualified tips received as an employee.

5 Qualified tips received in the course of a trade or business.

6 Add lines 4c and 5

7 Enter the smaller of the amount on line 6 or $25,000

8 Enter the amount from line 3

9 Enter $150,000 ($300,000 if married filing jointly)

10 Subtract line 9 from line 8. If zero or less, enter the amount from line 7 on line 13

11 Divide line 10 by $1,000. If the resulting number isn't a whole number, decrease the result to the next lower whole number. (For example, decrease 1.5 to 1, and decrease 0.05 to 0.)

12 Multiply line 11 by $100

13 Qualified tips deduction. Subtract line 12 from line 7. If zero or less, enter -0-

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No Tax on Overtime

Pg 592

New I.R.C. 225
Below the line deduction for Qualified Overtime pay
2025 thru 2028
Limited to:
- Joint return - $25,000
- All others - $12,500

Phase out begins:
- Joint return $300,000 (MAGI)
- All others $150,000 (MAGI)

Reduce deduction by $100 for each $1,000 over phase out

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No Tax on Overtime

Pg 592

Based on EXTRA Pay for overtime
- Mark makes $40 per hour
- $60 for overtime
  - $20 will be "Qualified Overtime"
- Overtime based on Fair Labor Standards Act
  - 1 ½ pay rate for work in excess of 40 hours a week

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No Tax on Overtime

Not in Book

Example 1

Martha earns $20/hr in 2025. She works 250 hrs overtime at $30/hr (time-and-a-half).

Overtime pay: $10/hour x 250 hrs = $2,500

Martha's AGI is $90,000

Overtime deduction is $2,500

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No Tax on Overtime

Not in Book

Example 2

Jason is an engineer and earned $20,000 of overtime pay.

Files MFJ with joint AGI of $325,000

$325,000 - $300,000 threshold = $25,000

$100 reduction per each $1,000 over

$25,000/$1,000 x $100 = $2,500

$20,000 - $2,500 = $17,500 deduction

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No Tax on Overtime

Pg 592

Must be included in W-2 or 1099

- Box 12, Code TT

Does not include tips!

Payee MUST have Social Security number

If married – MUST file a joint return

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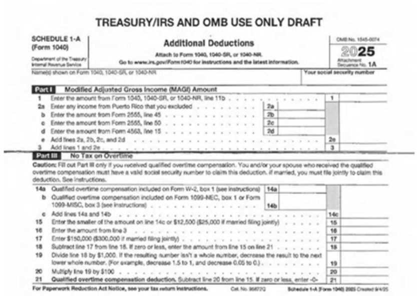
No Tax on Overtime

Pg 592



TREASURY/IRS AND OMB USE ONLY DRAFT

SCHEDULE 1-A (Form 1040)
Department of the Treasury Internal Revenue Service

Additional Deductions

Attach to Form 1040, 1040-SR, or 1040-NR.
Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074
2025
Attachment Sequence No. 1A

Name(s) shown on Form 1040, 1040-SR, or 1040-NR | Your social security number

Part I Modified Adjusted Gross Income (MAGI) Amount

1	Enter the amount from Form 1040, 1040-SR, or 1040-NR, line 11b		1
2a	Enter any income from Puerto Rico that you excluded	2a	
b	Enter the amount from Form 2555, line 45	2b	
c	Enter the amount from Form 2555, line 50	2c	
d	Enter the amount from Form 4563, line 15	2d	
e	Add lines 2a, 2b, 2c, and 2d		2e
3	Add lines 1 and 2e		3

Part III No Tax on Overtime

Caution: Fill out Part III only if you received qualified overtime compensation. You and/or your spouse who received the qualified overtime compensation must have a valid social security number to claim this deduction. If married, you must file jointly to claim this deduction. See instructions.

14a	Qualified overtime compensation included on Form W-2, box 1 (see instructions)	14a	
b	Qualified overtime compensation included on Form 1099-NEC, box 1 or Form 1099-MISC, box 3 (see instructions)	14b	
c	Add lines 14a and 14b		14c
15	Enter the smaller of the amount on line 14c or $12,500 ($25,000 if married filing jointly)		15
16	Enter the amount from line 3		16
17	Enter $150,000 ($300,000 if married filing jointly)		17
18	Subtract line 17 from line 16. If zero or less, enter the amount from line 15 on line 21		18
19	Divide line 18 by $1,000. If the resulting number isn't a whole number, decrease the result to the next lower whole number. (For example, decrease 1.5 to 1, and decrease 0.05 to 0.)		19
20	Multiply line 19 by $100		20
21	**Qualified overtime compensation deduction.** Subtract line 20 from line 15. If zero or less, enter -0-		21

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 96872Q **Schedule 1-A (Form 1040) 2025** Created 8/4/25

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End of New & Expiring Legislation

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