2025 TAX UPDATE

PRIME PATH
FINANCIAL, INC.
Income Taxes & Bookkeeping

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STANDARD DEDUCTION

Standard Deductions (IRC §63)			
Filing status	**2023 (Rev. Proc. 2022-38)**	**2024 (Rev. Proc. 2023-34)**	**2025 (Rev. Proc. 2024-40)**
Married filing joint and qualifying widow(er)	$27,700	$29,200	$30,000
Head of household	$20,800	$21,900	$22,500
Single	$13,850	$14,600	$15,000
Married filing separate	$13,850	$14,600	$15,000

Additional Standard Deductions for Elderly and/or Blind			
Filing status	**2023**	**2024**	**2025**
Unmarried			
Elderly or blind	$1,850	$1,950	$2,000
Elderly and blind	$3,700	$3,900	$4,000
Married			
Elderly or blind (per taxpayer)	$1,500	$1,550	$1,600
Elderly and blind (per taxpayer)	$3,000	$3,100	$3,200

For 2025 if you are both over 65 and legally blind, your standard deduction is **$36,400.**

TCJA
EXPIRING

CAPITAL GAINS

TCJA EXPIRING

Individual Long-Term Capital Gains Rates (IRC §1(h))		
Rate	**Taxable income breakpoint (2024) (Rev. Proc. 2023-34)**	**Taxable income breakpoint (2025) (Rev. Proc. 2024-40)**
0%	Single: \$47,025 MFS: \$47,025 MFJ: \$94,050 HOH: \$63,000 Estates and trusts: \$3,150	Single: \$48,350 MFS: \$48,350 MFJ: \$96,700 HOH: \$64,750 Estates and trusts: \$3,250
15%	Single: \$518,900 MFS: \$291,850 MFJ: \$583,750 HOH: \$551,350 Estates and trusts: \$15,450	Single: \$533,400 MFS: \$300,000 MFJ: \$600,050 HOH: \$566,700 Estates and trusts: \$15,900
20%	No breakpoint	No breakpoint

MEDICAL DEDUCTIONS

-7.5% floor
-Even if you exceed 7.5%, the excess plus your other itemized deductions need to beat your standard deduction
-Don't forget to include Medicare premiums taken out of your social security
-Don't forget to include mileage to and from your providers at $.21/mile
-Don't forget cost for dental, optical or durable medical equipment
-Don't forget Long Term Care Premiums (up to $5,880 for 2024 per person)

FUNDING LONG TERM CARE

Long-term care insurance can be costly. If you have life insurance, a 1035 exchange may be the right answer.

Typically, selling or surrendering a life insurance contract can give rise to taxable gain if the proceeds or surrender value of the contract is greater than your adjusted basis in the contract.

A 1035 exchange allows a taxpayer to exchange their life insurance policy tax-free for another life insurance policy, an endowment contract, an annuity contract or a qualified long-term care contract.

(IRC §1035(a)(1))

DISASTER RELIEF

- Texas Severe Storms DR-4781-TX April 26-June 5, 2024
- Hurricane Beryl DR-4798-TX July 5-9, 2024

For taxable years 2018 through 2025, casualty losses are limited only to losses sustained in Presidentially declared disasters. (IRC §165(h)(5)(A))

Personal casualty and theft losses attributable to a federally declared disaster are subject to the $100 per casualty and 10% of AGI deductions unless they are attributable to a qualified disaster that occurred in 2020 or earlier. (Form 4684 instructions) Qualified disasters are specifically identified disasters that are afforded additional beneficial treatment and are specifically listed in the Form 4684, Casualties and Thefts, instructions.

Election to take deduction for preceding year

Taxpayers who suffer casualty losses incurred due to a Presidentially declared disaster can elect to take the deduction for the preceding taxable year. (IRC §165(i)) This provision is designed to help taxpayers who sustain losses during major disasters to get immediate tax relief via refunds if they file this election.

The election is made on Form 4684, Casualties and Thefts, Section D, Part I.

TCJA
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DISASTER RELIEF – WHAT DO I NEED?

Cost of the repairs isn't necessarily your loss!

FMV of the property before the disaster
- FMV of the property immediately after (without repair)
= LOSS

- Insurance proceeds
- $100
- 10% of your Adjusted Gross Income

THEN….carry this number to your itemized deductions

SECURE 2.0 ACT – IRA DISTRIBUTIONS

The mandatory age to begin taking required minimum distributions (RMDs) is age 73. The RMD age is increased to age 75 for taxpayers born after 1959. (IRC §401(a)(9)(C)(i)(I))

Missed RMDs

Taxpayers who fail to timely take their RMD are subject to an excise tax of 25% of the RMD shortfall. (IRC §4974(a)) The excise tax is reduced to 10% if the taxpayer corrects the shortfall and files a tax return reflecting the excise tax by the earlier of the following dates (referred to as the "correction window"):

- The date the IRS issues a notice of deficiency with respect to the excise tax;
- The date the IRS assesses the excise tax; or
- The end of the second taxable year after the shortfall occurred. (IRC §4974(e))

SECURE 2.0 ACT – QCD QUALIFIED CHARITABLE DEDUCTIONS

- Made on or after the date you reach 70 ½
- Made directly by the IRA to a charitable organization
- Count towards your RMD for the year
- If you have basis in your IRA, can be allocated to earnings, leaving basis intact
- Reduces your AGI when used as part of your RMD, this helps with other things tied to AGI such as the percentage of your social security subject to tax, net investment income tax, 7.5% medical deduction floor and MAGI for Medicare surcharges

2025	Personal Check	QCD
Income	100,000	85,000 (100k-15k)
Standard Ded	-33,200**	-33,200**
Itemized Ded	-30,000 (int,taxes,charity)	-15,000
Taxable Income	66,800	51,800
Tax	$7,539	$5,739

Tax savings of $1,800!!!

SECURE 2.0 ACT –
QLAC QUALIFIED LONGEVITY ANNUITY CONTRACTS

Qualified longevity annuity contracts (QLACs) are investment vehicles that allow taxpayers to remove assets from their IRA and hold them until later retirement years. (Treas. Regs. §1.401(a)(9)-6, Q&A 17)

The cornerstone of the QLAC is the removal of RMD requirements for assets placed in a QLAC. They make it easier for retirees to address the risk of outliving their assets by using a limited portion of their retirement savings to purchase a policy in a retirement plan that will provide guaranteed income for life starting at an advanced age. Distributions from the QLAC must commence no later than age 85 (although the contract may specify an earlier age).

Maximum QLAC investment

The premiums paid for all QLAC contracts for the benefit of any individual cannot exceed $200,000 (indexed for inflation starting in 2025; the 2025 amount is $210,000 (Notice 2024-80)).

Eligible accounts

QLACs may be purchased under:

- Defined contribution plans;
- Traditional IRAs;
- IRC §403(b) plans; and
- Governmental IRC §457(b) plans.

SECURE 2.0 ACT –
QLAC QUALIFIED LONGEVITY ANNUITY CONTRACTS

Example of stretching IRA

Juan is 74 years old and his IRA contains $1.5 million. Juan's RMD is $58,824 ($1,500,000 ÷ 25.5 life expectancy factor). Juan receives Social Security benefits and other sources of passive income, so he does not need to use the money from his IRA to live on. He put $200,000 in a QLAC, which reduced his current-year RMD by $7,843 ($200,000 ÷ 25.5 life expectancy factor).

In addition to reducing his RMDs, if the annuity pays 3.5% over the next 11 years, Juan's $200,000 will be worth over $260,000 when he is 85 years old and must begin drawing on the annuity.

TCJA – THE TAX CUTS AND JOBS ACT SUNSET TAX PLANNING

TCJA Provisions Scheduled to Sunset on December 31, 2025		
Provision	**Description**	**Status**
Tax brackets	**Pre TCJA tax brackets were:** 10%, 15%, 25%, 28%, 33%, 35% and 39.6%. **TCJA tax brackets (2018–2025) are:** 10%, 12%, 22%, 24%, 32%, 35% and 37%. Additionally, taxpayers generally reach the next highest tax bracket at a higher taxable income point under the TCJA	Not extended
Personal exemption deduction	Suspended from 2018–2025	Not extended
Increased standard deduction	Nearly doubled in 2018 and then adjusted for inflation each year	Not extended
Capital gain breakpoints for 15% and 20% brackets	Prior to TCJA, taxpayers in the 10% and 15% tax brackets paid 0% long-term capital gains rate (LTCG). Taxpayers in the 39.6% tax bracket paid a 20% LTCG rate. All others paid a 15% LTCG rate. For 2018–2025, the breakpoints for the LTCG brackets is based on a set taxable income amount (adjusted annually for inflation)	Not extended

COD income exclusion for discharges of student loans	COD exclusion for certain student loans. This provision was later expanded by the ARPA to encompass more student loans	Not extended
Moving expense deduction and exclusion from income for moving expense reimbursements from an employer	Suspended from 2018–2025 for everyone except active-duty military (IRC §§132(g) and 217(k))	Not extended
Itemized deduction phaseout	Suspended from 2018–2025 (IRC §68)	Not extended
State and local tax (SALT) itemized deduction limitation	Deduction limited to $10,000 ($5,000 for MFS) from 2018–2025 (IRC §164(b)(5))	Not extended
Personal casualty and theft loss limitation	Limited to Presidentially declared disasters only from 2018-2025 (IRC §165)	Not extended
Mortgage interest limitation	Schedule A deduction limited to interest on the first $750,000 of acquisition debt only ($375,000 for MFS) from 2018–2025. (IRC §163(h)(3)) Suspends deduction for equity debt from 2018–2025	Not extended
Charitable contribution AGI threshold	Increased AGI limit from 50% to 60% for contributions to "50% charities" from 2018–2025 (IRC §170)	Not extended
Miscellaneous itemized deductions	All 2% miscellaneous itemized deductions are suspended from 2018–2025 (IRC §67(g))	Not extended

Increased AMT exemption and exemption phaseout	Increased AMT exemption amount and the AMT exemption phaseout threshold for 2018–2025 (IRC §55(d)(4))	Not extended
Increased Child Tax Credit	Credit increased from $1,000 to $2,000, included a provision for a $500 credit for qualifying relatives, and increased the phaseout limitation from 2018–2025 (IRC §24)	Not extended
Rollover of §529 funds to ABLE accounts	Distribution of §529 funds tax-free and without penalty if the distribution is recontributed to an ABLE account within 60 days of the distribution and is made before January 1, 2026 (IRC §529(c)(7))	Not extended
Additional ABLE account contributions	In addition to the annual gift tax limit, designated ABLE account beneficiaries can contribute to their own ABLE account up to the lesser of compensation included in the beneficiary's gross income or the prior-year's poverty level for a one-person household, from 2018–2025	Not extended
ABLE account contributions and Saver's Credit	Contribution to an ABLE account by its designated beneficiary qualifies as a contribution for the Saver's Credit from 2018–2025 (IRC §25B(d)(1))	Not extended

Unified exclusion	Doubled unified exclusion from estate and gift tax and adjusted annually for inflation (IRC §2010(c)(3))	Not extended
Meals provided for the convenience of the employer and as a *de minimis* fringe benefit	50% deduction is scheduled to be reduced to 0% after 2025 (IRC §274(o))	Not extended
Excess business losses	Business losses of noncorporate taxpayers are limited. The disallowed losses must be carried forward as a net operating loss. TCJA provision applies to losses generated from 2018–2025, but CARES Act delayed the start of this provision as a COVID-19 tax relief provision (IRC §461(l))	Extended through 2028 by the Inflation Reduction Act of 2022 (IRC §461(l)(1))
Qualified business income deduction	Provides a deduction of up to 20% for noncorporate taxpayers on qualified business income from 2018–2025 (IRC §199A)	Not extended
Capital gain deferral for Qualified Opportunity Zone investments	Permits taxpayers to defer capital gains that are reinvested within 180 days of the capital gain event. Deferred gains are taxable on December 31, 2026 (IRC §1400Z-2)	Not extended
Bonus depreciation	The TCJA extended the 100% bonus depreciation through the 2022 tax year (2023 tax year for property with longer production periods) and decreases it 20% per year thereafter until it is phased out beginning with property placed in service in 2027	Not extended

TCJA – THINGS TO THINK ABOUT

TAX BRACKETS

For taxable years 2018 through 2025, the TCJA reduced the tax rates for all but the lowest earners and increased the taxable income at which each filing status reached the next tax bracket.

Tax brackets for 2026

Inflation-adjusted tax brackets for 2026 won't officially be released until the fall of 2025, but the brackets will once again be at 10%, 15%, 25%, 28%, 33%, 35% and 39.6%. (IRC §1(a))

Planning for increased tax rates

Accelerating income by pushing off deductions as 2026 approaches

Taxpayers can start planning ahead for increased rates by recognizing income in 2024 and 2025, if possible, while rates remain lower.

On the flip side, delaying deductions until 2026 when they will provide a greater impact is also beneficial to the extent that deductions are within the taxpayer's control. We will discuss this topic in more detail when we discuss some of the itemized deduction limitations imposed by the TCJA that will be going away in 2026.

Roth conversions

Taxpayers considering Roth conversions should do so in advance of 2026 to minimize the tax impact. Roth conversions are taxable events, so leveraging lower tax brackets is beneficial.

TCJA – THINGS TO THINK ABOUT

STANDARD DEDUCTION

The TCJA nearly doubled the standard deduction. Starting in 2026, the standard deduction will be reduced to its pre-TCJA levels, plus inflation from 2018. The 2026 inflation-adjusted figures won't be released until fall 2025, but because the TCJA nearly doubled the standard deduction, we can expect the 2026 standard deduction to be roughly half of the 2025 standard deduction of $30,000 for married filing joint (MFJ); $22,500 HOH; and $15,000 for single and married filing separate (MFS) taxpayers. (Rev. Proc. 2024-40)

The reduced standard will mean that many more taxpayers will once again itemize their deductions. With the multiple changes to itemized deductions also sunsetting (each of which are discussed below), it may be time to start re-educating clients on their allowable itemized deductions, such as the restoration of the 2% miscellaneous itemized deductions and the elimination of the $10,000 state and local tax deduction limitation.

TCJA – THINGS TO THINK ABOUT

ITEMIZED DEDUCTION PHASEOUT

The overall limitation on itemized deductions is suspended from 2018 through 2025. (IRC §68) Under the limitation, a taxpayer's itemized deductions were reduced by the lesser of:

- 3% of the excess AGI over the threshold amount; or
- 80% of the itemized deductions otherwise allowable.

Medical expenses, investment interest expenses, and casualty, theft, or wagering losses were exempt from this reduction. (IRC §68(c))

Starting in 2026, the overall limitation on itemized deductions will once again come into play for higher income taxpayers.

Planning for the itemized deduction phaseout

Taxpayers can plan ahead for the phaseout by once again trying to accelerate income into 2025 if possible. Doing so can help minimize the taxpayer's itemized deductions that will be limited in 2026.

Taxpayers probably should not try to accelerate itemized deductions in 2025 because deductions for state and local taxes, mortgage interest, and 2% miscellaneous itemized deductions that also sunset in 2025 means that taxpayers are still likely to receive a larger benefit by pushing such deductions into 2026, even if that means facing the itemized deduction phaseout.

TCJA – THINGS TO THINK ABOUT

STATE AND LOCAL TAX DEDUCTION

The itemized deduction for state and local taxes (SALT) is limited to $10,000 per year ($5,000 in the case of married taxpayers filing separately) for the aggregate of state and local income taxes, real property taxes, and personal property taxes from 2018–2025. (IRC §164(b)(5))

A taxpayer may make an election to deduct sales and use tax rather than income tax (also subject to the $10,000 limit). This is still available and popular in states with no state income tax.

Planning ahead for the SALT deduction limitation sunset

As we approach 2026, taxpayers should plan to pay their fourth quarter 2025 estimates after December 31, 2025 (and on or before their due date on January 15, 2026). The same goes for property tax payments otherwise due at the end of 2025.

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THANK YOU

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