



BRSW CPA'S 2025 YEAR END NEWSLETTER

Dear Clients and Friends,

With the year end approaching, it is once again time to start figuring out which moves may help lower your tax bill for this year and next. The standard year-end approach of deferring income and accelerating deductions to minimize taxes will continue to produce the best results. Most of the current tax provisions that were set to expire in 2025 have been extended or made permanent with the passing of the One Big Beautiful Bill Act (OBBBA) in July. This newsletter will go through the most commonly beneficial credits and deductions that were introduced, extended, or updated for 2025 and 2026 by the OBBBA.

In our continuous efforts to make tax season as smooth and efficient as possible for everyone, we will begin using Soraban as a platform for securely sending and receiving documents beginning in January. Once the online portal is ready, we will be sending links to clients with guides on how to set it up. More information will be posted to the website soon.

Another big change for the coming tax season is the implementation of Executive Order 14247: Modernizing Payments To and From America's Bank Account. No changes are being made to the processing of tax returns, but the IRS has stopped issuing and receiving paper checks for refunds and payments starting October 1, 2025. Therefore, any fourth quarter estimated payments for tax year 2025 should be made via electronic methods, if feasible.

Not all of the strategies included in this newsletter will apply to you, but you (or a family member) may benefit from many of them. We can narrow down specific actions to tailor a particular plan for you when we meet after the new year. In the meantime, please review the following list and contact us at your earliest convenience so that we can advise you on which tax-saving moves might be beneficial.

We appreciate the opportunity to be of service to you!

Sincerely,

Bashore Reineck Stoller & Waterman Inc

Your friends at Bashore Reineck Stoller & Waterman Inc

YEAR-END TAX PLANNING FOR INDIVIDUALS

529 to Roth IRA

Up to \$35,000, subject to IRA contribution limits, can be transferred from a 529 account tax free into a Roth IRA for the same beneficiary after it has been open 15 years.

Health Savings Account Limits

Depending on the health plan deductible and out-of-pocket limits, you may be able to make contributions to a health savings account (HSA) and receive an above-the-line deduction. The 2025 maximum HSA contributions is \$4,300 for self-only coverage and \$8,550 for family. Those 55 and older can make an additional \$1,000 contribution. The maximum Flexible Spending Account (FSA) contribution is \$3,300 with a rollover amount of \$660 for 2025.

Required Minimum Distribution from Pension / IRA

Required Minimum Distribution (RMD) age for 2025 starts at 73 and will increase to 75 in 2033. The penalty for failing to take RMD is 25% with an opportunity to reduce it further to 10%.

Qualified charitable distributions of up to \$108,000 transferred directly to charity once over age 70 1/2 can be counted towards the RMD in 2025.

Retirement Contribution Limits

The limit in 2025 for 401Ks, 403Bs, 457s is \$23,500 for employee contributions plus \$7,500 for 50+ catch up and \$11,250 for 60-63 super catch-up.

The limit for contributions in 2025 for SIMPLE IRA & SARASEP is \$16,500 plus \$3,500 for 50+ catch up and \$5,250 for 60-60 super catch-up.

Traditional and Roth IRA contribution limits for 2025 is \$7,000 plus \$1,000 for 50+ catch up.

Documents for Tax Return

Documents to bring or drop off if you have

Earned income: W-2, 1099-NEC, 1099-MISC

Received unemployment: 1099-G

Marketplace Health Insurance: 1095-A

Gambling earnings: W-2G (along with itemized losses separated from winnings, can not be netted)

Sports betting: 1099-MISC or 1099-K

Received retirement distributions: 1099-R

Received Social Security: SSA-1099

Own a partnership or S-Corp: K-1

Savings / Investment interest: 1099-INT

Received dividends: 1099-DIV

Sold securities: 1099-B

Sold Property: 1099-S

Paid mortgage interest: 1098

Paid tuition: 1098-T

Paid student loan interest: 1098-E

Payment to 529: 1099-Q

HSA/FSA/MSA distributions: 1099-SA

IRA: 5498 for value

Donated to charity: receipts for donations

Paid for childcare: Cost and information of caregiver (name, address, EIN/SSN)

Paid rent in Indiana: rental agreement

Other helpful information to bring:

SSN and DOB of new children or spouse

Identify PIN Form if you signed up for one

Signed engagement letter

Copy of up to date drivers license

Estimated tax payments and dates

Any tax agency notices or communications

FARM, ESTATE & RETIREMENT PLANNING

Strategies to Reduce Estate and/or Defer Income

Use both spouses lifetime exclusions fully by splitting estate assets appropriately.

Use a Spousal Lifetime Access Trust (SLAT) and/or Grantor Retained Annuity Trust (GRAT) to retain assets but place them outside of your estate.

Maximize retirement, 529, HSA, etc contributions.

Consider Roth conversions if tax rates are to increase.

Strategize timing of charitable giving or gift appreciating assets instead of cash to increase charitable deduction and reduce income.

Consider transferring income producing property to a lower income bracket family member.

Consider switching to cash accounting method if able and don't currently use it in order to further control recognizing income and expenses.

Rethink business structure with C Corp tax rates set to stay at 21%.

Use Safe Harbor elections to expense purchases under \$2,500.

Trust and Estate Distributions

Complex trust and estate distributions made within the first 65 days of 2026 may electively be treated as paid and deductible in 2025. The election is generally made on the return for the election year. Thus, fiduciaries do not need to make payments in 2025 for the payments to be deductible in that year. They can wait until 2026, when the 2025 tax picture will be clearer, to decide whether the payments may be more profitably imputed back to 2025 via the 65-day rule or treated as 2026 payments.

Portability and Estate Limits

The estate limit is currently \$13,990,000 per person. When someone dies be sure to elect portability so any unused portion of the estate limit can be transferred to their spouse. Otherwise, the unused portion of the estate exemption will be lost. The OBBBA has permanently set the estate exemption limit at \$15 million starting in 2026.

Gift Tax Exclusion

The annual gift tax exclusion for 2025 has been increased to \$19,000 per person and will remain \$19,000 for 2026.

Grain Gifting

To gift grain to a charity, the farmer cannot sell the grain and order the proceeds to be sent to charity. This would result in the transaction being considered a cash sale and cash donation since the farmer has not given up control of the property. Instead, the farmer should transfer the bushels directly to the charity's name and then the charity sells the bushels. When gifting grain to an individual, the donor's opening inventory must be reduced for any costs or undeducted expenses relating to the transferred property. That means the donor cannot deduct current-year costs applicable to the commodity. However, costs deducted on prior returns are allowed. Thus, a farmer reporting on a calendar-year basis under the cash method is allowed full deductibility of expenses if a gift of raised commodity is not made until the tax year after harvest (i.e., the grain which is the subject of the gift was raised in a year prior to the gift, and all associated expenses would have been deducted in the prior year).

YEAR-END TAX PLANNING FOR BUSINESSES

One Big Beautiful Bill Act Business Provisions from Tax Cuts and Jobs Act

20% Qualified Business Income (QBI) Deduction: Sole proprietorships, partnerships, limited liability companies and S corporations may be able to take a deduction of up to 20% of their QBI from a qualified trade or business. The OBBBA has made this deduction permanent, created a minimum deduction of \$400 for a taxpayer that has a minimum of \$1,000 QBI, and expanded limitation thresholds.

Interest Limitation: Starting January 1, 2025, businesses are now able to add back depreciation expense again when calculating net income for the interest limitation at 30% of income.

Research & Development: Research & development (R&D) expenses can be immediately expensed again. The OBBBA has repealed the Tax Cuts and Jobs Act's five year amortization of domestic research and development rule and clarified that software development is an R&D expense. Foreign R&D must still be amortized over 15 years. OBBBA allows small businesses under \$31 million in average gross receipts to amend prior year returns (2022-2024) to go back and expense R&D.

Bonus Depreciation: This has been increased and made permanent by the OBBBA. Assets placed in service after January 20, 2025 can take 100% bonus depreciation, while assets placed in service before January 20th can only take bonus depreciation of 40%.

Contribution Limits

Beginning in 2026 there is a charitable deduction available for non-itemizers which is beneficial, but there is now a floor of .5% for personal returns which itemize and 1% on corporate returns which will reduce the charitable deductions available to be claimed. The changes will help some taxpayers and hurt other taxpayers.

Section 179 Depreciation

The deduction limit is increasing from \$1,250,000 in 2025 to \$2,560,000 in 2026 with the phase out limit also increasing from \$3,130,000 in 2025 to \$4,090,000 in 2026.

Mileage Rates

Business mileage for 2025 is 70 cents per mile. The rate has not yet been decided for 2026.

Beneficial Ownership Information

Even before the original deadline for reporting Beneficial Ownership Information (BOI), there were several courts debating the constitutionality of it. The current status of BOI comes from the most recent ruling in March 2025 which says that domestic reporting companies and their owners are exempt from the requirement to report their BOI. Foreign companies are still required to comply with BOI reporting.

New Deductions Created by OBBBA

No Tax on Overtime

The OBBBA has created a special deduction for eligible overtime compensation to be deducted from taxable income with a limit of \$12,500 per person (\$25,000 for joint filers) for the 2025 tax year. The amount deducted is only the premium portion in excess of normal hourly rate.

For an individual to take this deduction, the employer must identify the amount on the W-2 box 14 or with an IRS approved attached statement for 2025. Neither the employee nor tax professional may estimate the amount. There will be a box 12 code specific for this amount in 2026.

This deduction is available to those who itemize or choose the standard deduction., but individuals must file with their social security number and if married, must file jointly.

This deduction phases out for taxpayers with modified adjusted gross income over \$150,000 for single files and \$300,000 for married joint filers and is set to expire after 2028.

No Tax on Tips

For tax years 2025-2028, tipped workers may deduct up to \$25,000 of voluntarily paid tips in qualified tip income. The amount of the deduction may not exceed the net income from a self-employed individual.

Employees and self employed individuals in a Specified Service Trade or Business under section 199A are not eligible.

This deduction is available to those who itemize or choose the standard deduction., but individuals must file with their social security number and if married, must file jointly.

This deduction phases out for taxpayers with modified adjusted gross income over \$150,000 for single filers and \$300,000 for married filers.

No Tax on Car Loan Interest

Individuals may deduct up to \$10,000 of loan interest used to purchase a qualified vehicle in tax years 2025 through 2028 regardless of if the individual itemizes.

A qualified vehicle is one with a gross vehicle weight rating of less than 14,000 that has undergone final assembly in the United States.

For the loan interest to qualify, the loan must have originated after December 31, 2024 and used to purchase a vehicle used by the tax payer for personal use and secured by a lien on the vehicle.

The VIN must be provided on the tax return.

This deduction phases out for taxpayers with modified adjusted gross income over \$100,000 for single filers and \$200,000 for married filers.

Deduction for Seniors

Aimed to give more tax relief for seniors, the OBBBA has created a new deduction available for tax years 2025-2028 to individuals who are age 65 and older in addition to the current additional standard deduction, but may also be used by those who itemize.

The tax payer must turn 65 by the last day of the taxable year, provide their social security number, and file jointly if married to receive the \$6,000 deduction (\$12,000 for a married couple who both qualify).

The deduction phases out for taxpayers with modified adjusted gross income over \$75,000 for single files and \$150,000 for married filers.

BUSINESS AND PAYROLL OBBBA CHANGES

Employer Credit for Paid Leave

Eligible employers may claim a credit for paid family and medical leave equal to a percentage of wages they pay to qualifying employees on leave. This credit was set to expire in 2026, but the OBBBA made it permanent on top of expanding access to the credit. Starting in tax year 2026, the credit can include employees that have been employed at least 6 months (down from 12 months requirement in 2025), has been increased to be a maximum of 25% qualifying paid leave wages or the applicable percentage of the total amount of premium paid or incurred for an insurance policy specifically for paid family and medical leave during the tax year.

Dependent Care Flexible Spending Account

A Dependent Care Flexible Spending Account (DCFSA) is a way to have pre-tax dollars deducted from your paycheck to be used to pay for eligible care expenses enabling you and your spouse to work. The contribution limit for 2025 is \$5,000, but the OBBBA has increased the limit to \$7,500 for 2026. There is no rollover amount for unused funds.

1099-NEC and 1099-MISC Thresholds

Starting in the 2026 tax year, the threshold for having to file a 1099-NEC or 1099-MISC becomes \$2,000, up from \$600 in 2025.

SECURE 2.0 Retirement

SECURE 2.0 created and enhanced tax credits for businesses who adopt a new pension plan and provide employer contributions. For high earners having \$150,000 or more in FICA wages for 2025, both catch-up and super catch-up contributions must be made on a Roth basis. This forces employers to offer Roth plans or limit catch up contributions.

1099-K Thresholds

For those that use third party payment apps to accept payments for selling goods and services in 2025, the threshold for receiving a 1099-K is \$20,000 and 200 transactions. The OBBBA has overridden previous threshold phase-downs.

W-2 and Withholding

Gift cards are taxable to employees and must be included in gross wages on Form W-2.

Minors are no longer required to pay Ohio municipal tax beginning in 2024.

SECURE 2.0 requires all new 401(k) and 403(b) plans starting in 2025 to have the auto enrollment feature.

Employer-Provided Child Care Credit

Another business credit that was expanded by the OBBBA is the employer-provided child care credit. The credit for 2025 is 25% of facility expenditures plus 10% resource and referral expenditures capped at \$150,000. Beginning in 2026, the credit is 40%-50% of facility expenditures plus 10% resource and referral expenditures capped at \$500,000-\$600,000. The credit remains nonrefundable.

OTHER OBBBA CHANGES

Trump Savings Accounts

Something brand new to come out of the OBBBA is the creation of IRAs seeded with \$1,000 from the government for children born between January 1, 2025 and December 31, 2028 intended for educational and other expenses when a child turns 18. Contributions can be made starting July 2026 up to \$5,000 annually (up to half can be employer contributions) not including the seed money. These contributions are not tax deductible and only earnings will be taxed as they are withdrawn. Qualified expenses such as higher education and home ownership are exempt from early withdrawal penalties.

High Deductible Health Plan

High deductible health plan (HDHP) eligibility and access was expanded by the OBBBA. Beginning in 2026, certain bronze and catastrophic government health plans will be considered HDHPs for the purposes of HSA eligibility. It will also begin allowing coverage under a Direct Primary Care (DPC) arrangement and DPC fees are now HSA eligible medical expenses with a limit of \$150/\$300 for self/family plans. The allowance of HDHPs to cover telehealth services before the deductible is met has been made permanent and retroactive to the beginning of 2025.

State And Local Tax Cap

The State and Local Tax (SALT) cap for 2025 single and married joint filers has been increased to \$40,000 (\$20,000 for married filing separate) from the \$10,000 limit set by the Tax Cuts and Jobs Act. This increase isn't permanent and is set to expire before 2030, where it drops back down to \$10,000 permanently. There is a phase-out for the deduction starting at a modified adjusted gross income (MAGI) of \$500,000 that reverts back to the \$10,000 cap for MAGIs of \$600,000 and up.

Education Credits

The use of 529 plans have become more flexible. Beginning July 5, 2025 qualified education expenses have been expanded to include, for K-12 and beyond, materials, fees for tutoring or testing, and certain educational therapies for students with disabilities.

For those enrolled in a qualified postsecondary credential program, 529 funds can now be used for continuing education required to obtain or maintain the credentials.

Beginning in 2026, the total limit of all K-12 expenses will rise to \$20,000, up from the \$10,000 limit in 2025.

Employer-Paid Student Loan Payments

OBBBA made permanent that up to \$5,250 annually of employer payments to an employee's student loans are excluded from taxable income.

2026 Changes for Tax Returns Filed in 2027

2026 Tax Brackets

Tax brackets for 2026 for single / married

37% for incomes over \$641,600 / \$768,700

35% for incomes over \$256,225 / \$512,450

32% for incomes over \$201,776 / \$403,550

24% for incomes over \$105,700 / \$211,400

22% for incomes over \$50,400 / 100,800

12% for incomes over \$12,400 / \$24,800

10% for incomes up to \$12,400 / \$24,800

Alternative Minimum Tax Exemption

The Alternative Minimum Tax exemption amount for tax year 2026 is \$90,100 and begins to phase out at \$500,000 (\$140,200 for married couples filing jointly which phases out at \$1,000,000). The 2025 exemption amount was \$88,100 and began to phase out at \$626,350 (\$137,000 for married couples filing jointly and phasing out at \$1,252,700).

The OBBBA has essentially allowed the AMT calculations set by the Tax Cuts and Jobs Act to expire. On top of the lower thresholds, starting in 2026, the phaseout rate increased from 25% to 50% per dollar.

Standard Deduction, Child Tax Credit, and Earned Income Tax Credit

The standard deduction for married couples filing jointly for tax year 2026 rises to \$32,200, up \$700 from the prior year.

For single taxpayers and married filing separately, the standard deduction rises to \$16,100 for 2026, up \$350 from the prior year.

For heads of household, the standard deduction will be \$24,150 for tax year 2026, up \$525 from the amount for tax year 2025.

For 2026, the additional standard deduction for age or blindness / age and blindness rises slightly to \$2,050 / \$4,100 for single or head of household and \$1,650 / \$3,300 for married jointly or separately.

Extra senior deduction starting in 2025 for single or married filing jointly remains \$6,000 for 2026.

The Child Tax Credit remains at \$2,200 for 2026, with the refundable portion up to \$1,700, no change from 2025.

Adoption Credit Increases

The maximum credit allowed for adoptions for tax year 2026 is the amount of qualified adoption expenses up to \$17,670 up from \$17,280 for 2025 with \$5,000 of it refundable starting in 2025.

HSA and FSA Contributions Limits for 2026

For individuals enrolled in a High-Deductible Health Plan (HDHP) where the deductible is not less than \$1,700 and maximum out of pocket expenses capped at \$8,500, they can contribute up to \$4,400 to an HSA in 2026, up \$200 from 2025. Families with coverage under an HDHP where the deductible is not less than \$3,400 and the out of pocket expenses are capped at \$17,000 can contribute up to \$8,750 in 2026, up \$200 from 2025. The catch up contribution for those over 55 years old remains at an additional \$1,000.

The maximum contribution limit for an FSA is increasing to \$3,400 in 2026, up from \$3,300 in 2025. The rollover amount is also increasing to \$680 in 2026, up \$20 from the prior year.