



# 2025 TAX UPDATE + INDIVIDUAL

We can provide you or your business with the knowledge and resources to make smart decisions and minimize your tax liability. “Make the complex simple” is something we take to heart. Visit [www.lutz.us/tax](http://www.lutz.us/tax) or email [info@lutz.us](mailto:info@lutz.us) to learn

- **AMT exemption amount:** \$88,100 (\$137,000 MFJ)
- **Standard Deduction:** \$15,750 Single (\$31,500 MFJ)
- **HSA contribution limit:** \$4,300 Single (\$8,550 Family)
- **FSA contribution limit:** \$3,300
- **Charitable Distributions from IRAs:** \$108,000
  - \$54,000 QCD to either a charitable remainder trust or charitable gift annuity
- **Energy Efficient Home Improvement Credit – Expires after 12/31/2025**
  - Must be produced by a qualified manufacturer
  - \$1,200 per taxpayer per year limit
  - \$2,000 limit for biomass stoves or boilers; electric or natural gas heat-pump water heaters; or electric or natural gas heat pumps (\$3,200 maximum credit)
  - Additional annual limits include:
    - \$600 for residential energy property expenditures per item category (ex: windows and skylights)
    - \$250 per exterior door (\$500 total for all exterior doors)
    - \$150 for a home energy audit of main home
- **Residential Clean Energy Credit – Expires after 12/31/2025**
  - 30% for installing solar, wind, or geothermal energy
- **American Opportunity Tax Credit of \$2,500**
  - Phase-out begins at \$80,000 (\$160,000 MFJ)
- **Lifetime Learning Credit of \$2,000**
  - Phase-out begins at \$80,000 (\$160,000 MFJ)
- **Student loan interest deduction limit: \$2,500**
  - Phase-out begins at \$85,000 (\$170,000 MFJ)
- **Child tax credit of \$2,200 per child under the age of 17 (\$1,700 is refundable)**
  - Phase-out begins at \$200,000 (\$400,000 MFJ)
- **3.8% Net Investment Income Tax is imposed on the lesser of:**
  - An individual’s net investment income for the tax year
  - Or modified AGI in excess of a floor: \$250,000 for joint filers and surviving spouses, \$125,000 for a married taxpayer filing separately and \$200,000 in any other case
  - Investment income includes gross income from: interest; dividends; annuities; royalties; rents, including rental income for real estate professionals & self-rental income; passive activity income; and capital gains
- **Additional .9% Medicare Tax – For employees**
  - Imposed on wages in excess of \$250k for joint filers, \$125k for married filing separately, and \$200k in any other case
- **Retirement Plan Limitations**
  - Early distribution penalty of 10% if under 59.5 years old
  - 401K: Lesser of \$23,500 or 100% of participants compensation [Catch-up (50+): Additional \$7,500, (60-63) \$11,250]
  - SIMPLE Plans: Lesser of \$16,500 or 100% participants compensation [Catch-up (50+): Additional \$3,500, (60-63) \$5,250]
  - IRA: Lesser of \$7,000 or 100% of earned income [Catch-up (50+): Additional \$1,000]
  - SEP IRA: 25% of total compensation and a maximum of \$70,000
  - Roth IRA: to contribute, MAGI must be less than \$150,000 (single) or \$236,000 (MFJ)
- **FICA wage base \$176,100 (previously \$168,600)**
- **Adoption of a Child Credit of \$17,280 – Up to \$5,000 is refundable**
  - Phase-out begins at \$259,190
- **Annual exclusion for gifts \$19,000**
- **Estate & Gift Tax**
  - 40% maximum rate with a \$13.99 million exemption amount in 2025
- **QBI Deduction**
  - Lessor of:
    - 20% of Qualified Business Income
    - 20% of taxable income less capital gains
  - \*Greater of:
    - 50% of Wages
    - Sum of 25% of wages and 2.5% of unadjusted basis of business property
    - \*only applies if taxable income over \$197,300 single, \$394,600 MFJ
  - New \$400 minimum deduction for ‘Active QBI’
- **Child & Dependent Care Credit**
  - Nonrefundable
  - \$3,000 allowable expense per dependent, \$6,000 max
- **2025 Dependent Care FSA**
  - \$5,000 (2,500 MFS)
  - \$7,500 (3,750 MFS) effective for 2026

Ordinary Rates	Dividend/CAP Gains	MFJ Income Levels	Single Income Levels
10%	0%	Under \$23,850	Under \$11,925
12%	0%	Between \$23,851 & \$96,700	Between \$11,926 & \$48,350
12%	15%	Between \$96,701 & \$96,950	Between \$48,351 & \$48,475
22%	15%	Between \$96,951 & \$206,700	Between \$48,476 & \$103,350
24%	15%	Between \$206,701 & \$394,600	Between \$103,351 & \$197,300
32%	15%	Between \$394,601 & \$501,050	Between \$197,301 & \$250,525
35%	15%	Between \$501,051 & \$600,050	Between \$250,526 & \$533,400
35%	20%	Between \$600,051 & \$751,600	Between \$533,401 & \$626,350
37%	20%	Over \$751,600	Over \$626,350

## Individual Provisions – OBBB Updates

Standard Deduction	\$15,750 / \$31,500
SALT Limitation Increase to \$40,000	Phase-out begins at \$500,000 MAGI; Increases by 1% each year after 2025 until reverting to \$10,000 in 2030
No Tax on Tips	\$25,000 maximum deduction for qualified tips; Phase-out starts at \$150,000 AGI (\$300,000 MFJ); Expires after 2028
No Tax on Overtime	\$12,500 maximum deduction (\$25,000 MFJ) for qualified overtime; Phase-out starts at \$150,000 AGI (\$300,000 MFJ); Expires after 2028
No Tax on Car Loan Interest	\$10,000 maximum deduction for qualified interest paid on passenger vehicle loans; Phase out starts at \$100,000 AGI (\$200,000 MFJ); Expires after 2028
Child Tax Credit (Maximum)	\$2,200 under age 17; \$1,700 is refundable
Home Mortgage Interest	Deductible for \$750k of debt
Medical Expenses	Retained (7.5% for 2025)
Itemized Deduction Phase-Out	Unchanged for 2025. Beginning in 2026: 35% cap on itemized deduction benefits for high-income taxpayers
Charitable Deductions	Unchanged for 2025. Beginning in 2026: \$1,000 (\$2,000 MFJ) above-the-line charitable deduction for non-itemizers; New 0.5% floor on all itemized charitable deductions (similar to the 7.5% AGI medical expenses haircut
Enhanced Senior Deduction	\$6,000 deduction for taxpayers 65+; Phase-out starts at \$75,000 AGI (\$150,000 MFJ); Expires after 2028



# 2025 TAX UPDATE + BUSINESS

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- **Bonus depreciation – applies to new and used property**
  - At 80% for 2023;
  - At 60% for 2024;
  - At 40% for property acquired 1/1/25–1/19/25;
  - Permanently at 100% for property acquired after 1/19/25
- **Depreciation limits on qualifying vehicles for 2025:**
  - With bonus: \$20,200 Y1, \$19,600 Y2, \$11,800 Y3, \$7,060 later
  - Without bonus: \$12,200 Y1, then same caps
- **Section 179 - may apply to purchase of new or used assets**
  - Expensing limit at \$2,500,000 phased out with investment of \$4,000,000
  - Computer software continues to be eligible for §179 election
  - Roofs, HVAC, fire and security alarm systems qualify
  - 179 SUV limitation - \$31,300
- **Qualified Leasehold/Retail Improvements and Restaurant Property replaced with Qualified Improvement Property (QIP). Effective as of 1/1/2018**
  - 15-year recovery period
  - Bonus eligible
- **Net Operating Losses for 2025 – carry-forward only and 80% of taxable income limitation can apply**
- **Excess Business Losses for 2025 – Limitation applies to losses over \$313,000 (\$626,000 MFJ). Any excess is treated as a NOL in the subsequent year**
- **Research & Development Expenses – Domestic Expensed in year incurred (15 years for foreign R&E) [OBBA impacts 2022-2024, can amend to expense]**
- **Work Opportunity Tax Credit - Extended through December 31, 2025**
- **Employee Retention Credit - Terminated as of September 30, 2021**
- **2025 Mileage Rates Released:**
  - Business mileage: 70.0 cents/mile (up 3 cents from prior year)
  - Medical mileage: 21 cents/mile (unchanged)
  - Charitable mileage: 14 cents/mile (unchanged)
- **Clean Vehicle Credits – All credits expire for vehicles acquired after 9/30/2025**

Must be a vehicle assembled in North America (considers factors like vehicle’s sourcing and assembly)

  1. **New Clean Vehicle Credit = max of \$7,500**
    - MSRP limit = \$55,000 (car) or \$80,000 (van, SUV, & pickup)
    - MAGI limit = \$150,000 (single) or \$300,000 (MFJ) (lesser of current and prior year)
  2. **Previously Owned Clean Vehicle Credit = the lesser of \$4,000 or 30% of the vehicle’s sales price**
    - Sales price limit = \$25,000
    - MAGI limit = \$75,000 (single) or \$150,000 (MFJ) (lesser of current and prior year)
  3. **Qualified Commercial Clean Vehicle Credit = max of \$7,500 if vehicle weight rating <14,000 lbs (\$40,000 if > 14,000 lbs)**

## Future OBBA Updates Beyond 2025

2026 - Employee Meals	50% deduction for employee meals is eliminated entirely
2026 - Trump Accounts	\$5,000 contribution limit per year per child; Potential \$1,000 per account for accounts created for children born between 2025-2028
2026 – Information Reporting Threshold for Certain Payees (1099-NEC and 1099-MISC)	Reporting thresholds are increased from \$600 to \$2,000; adjusted for inflation after 2026
2026 - New Limit on Gambling Losses	Only 90% of gambling losses can be used to offset gambling income
2026 - Corporate Charitable Deductions	New 1% floor on all itemized charitable deductions
2027 - Opportunity Zones	5-year deferral of capital gains and 10% basis step-up starting in 2027 for qualifying investments

## Estate Taxes

Top Tax Rate	40%
Lifetime Exemption 2025	\$13,990,000
Sunset in 2026?	No, now permanent for 2026 onward with inflation adjustments for future years

## Pass-Through Businesses (S Corps & LLC’s)

Qualified Business Income Deduction (Active and Passive) ***	Now permanent for future years. Deduct 20% of income limited to 50% of wages; can also include 2.5% of unadjusted basis in qualified property limitation (great deal for real estate holdings); allowed for trusts & estates (see reverse side)
Carried Interest Treated as LTCG	3 Year Holding Period
Excess Business Losses	\$313,000/single and \$626,000/MFJ

## Corporate/Business Provisions

Top Tax Rate	21%
AMT	Eliminated, except for corporations with over \$800 million in average annual financial statement income (\$80 million if foreign parent involved)
Expensing of Assets	100% asset expensing for acquisitions from 9/27/17 to 12/31/22; 60% bonus in 2024; 40% for assets acquired 1/1/25–1/19/25; and 100% for assets acquired after 1/19/25
Section 179	\$2,500,000
Interest Expense (163(j))	Return to 30% of EBITDA; only applies if revenue > \$31 million;
Entertainment Expenses	Nondeductible
NOL Carryovers	Default carry-forward applies and 80% limitation applies for tax years beginning after 12/31/2020
C Corps Forced Accrual Method	Receipts > \$31 million
Research Expenses	Beginning 1/1/25, domestic R&E can be fully expensed (amortize 15 years for foreign R&E); retroactive elections are available for certain taxpayers
State PTET (Pass-Through Entity Tax)	No limitation on expensing for businesses
Third Party Network Transactions (Form 1099-K) Threshold	Over \$20,000 and 200 transactions within a calendar year

## Tax-Exempt Entities

Private Foundation Excise Tax Rate	1.39%
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