



2025 TAX YEAR FILING GUIDE: KEY UPDATES TO CREDITS AND CHANGES FOR FILING IN 2026 TAX SEASON

STANDARD DEDUCTION

FILING STATUS	STANDARD DEDUCTION
Single (S) / Unmarried	\$15,750
Married Filing Jointly (MFJ)	\$31,500
Married Filing Separately (MFS)	\$15,750
Head of Household (HOH)	\$23,625
Qualifying Surviving Spouse (QSS)	\$31,500

If you are 65 or older and/or blind on the last day of the tax year, you may qualify for an extra deduction.

Single or Head of Household

- Age 65 or older **or** blind: \$2,000
- Both age 65 or older **and** blind: \$4,000

Married Filing Jointly or Married Filing Separately

- Age 65 or older **or** blind (per qualifying individual): \$1,600
- Both age 65 or older **and** blind (per qualifying individual): \$3,200

EDUCATION TAX CREDITS

American Opportunity Tax Credit

You can receive a maximum annual credit of **\$2,500** per eligible student. If the credit reduces your tax liability to zero, you may be refunded up to \$1,000 of any remaining credit amount.

Lifetime Learning Credit

The Lifetime Learning Credit (LLC) applies to qualified tuition and related expenses for eligible students attending an eligible educational institution. It provides a credit of up to **\$2,000** per tax return.

TAX FORMULA FOR INDIVIDUALS

GROSS INCOME

-Section 62 Adjustments/Deductions (above the line)

= ADJUSTED GROSS INCOME

-Greater of Itemized Deductions or Standard Deduction
-Qualified Business Income Deduction, if applicable.

= TAXABLE INCOME

x Marginal Tax Rate

= GROSS TAX LIABILITY

-Credits

= NET TAX Liability or Refund Receivable

STANDARD MILEAGE RATES FOR TAX YEAR 2025

- **Self-employed and business:** 70 cents/mile
- **Charities:** 14 cents/mile
- **Medical:** 21 cents/mile
- **Moving (military only):** 21 cents/mile

ALTERNATIVE MINIMUM TAX

For the 2025 tax year, the Alternative Minimum Tax exemption amount for single and MFS filers is **\$88,100** (which starts to phase out at an income level of \$626,350). For married couples filing jointly or QSS, the exemption amount is **\$137,000** and begins to phase out at \$1,252,700.

UPDATES TO TAX CREDITS

- For Qualified Adoption Expenses = up to **\$17,280**.
- Student Loan Interest Deduction = up to **\$2,500**. Deduction starts to phase out when MAGI is greater than \$85,000.
- Foreign Earned Income Exclusion = up to **\$130,000**.
- Annual Exclusion for Gifts = up to **\$19,000**.
- Large Gifts Received from Foreign Persons = **\$100,000** reporting limit.
- Large Gifts Received from Foreign Corporations = **\$20,116** reporting limit.

PAYROLL TAXES WAGE BASES & LIMITS

- **Social Security:** Employer rate = **6.2%** of wages. Wage base limit = **\$176,100** per employee (no Social Security tax on wages above this amount.).
- **Medicare:** Employer rate = **1.45%** of all wages (no cap). There is no maximum wage base.
- FUTA (Federal Unemployment Tax Act): Tax rate = **6.0%** on the first \$7,000 of each employee's wages.

INDEPENDENT CONTRACTORS

SUBCONTRACTORS

Subcontractors and/or independent contractors are self-employed individuals providing services to businesses without being directly employed by them. Payments made to subcontractors are usually reported using Form 1099-NEC.



2025 TAX YEAR - TAX RETURN GUIDE

NEW INDIVIDUAL TAX PROVISIONS WITH PASSING OF ONE BIG BEAUTIFUL BILL ACT (OBBBA)

“TRUMP ACCOUNTS” FOR CHILDREN

The legislation includes a provision establishing **\$1,000** federal savings accounts for children born within a specific window (e.g., between late 2024 and early 2029), these are generally called “Trump Accounts.” These accounts are intended to help families save for future expenses, with initial federal contributions and tax-advantaged growth (similar in concept to education or savings accounts).

Key features:

- Eligible for children born in the specified period (e.g., **Dec 31, 2024 – Jan 1, 2029**).
- Initial federal contributions (e.g., \$1,000) with additional periodic federal contributions.
- Families and employers may contribute tax-free up to set annual limits.
- Designed to grow tax-advantaged and be used for future qualified expenses.
- Enroll your child by making an election when you file your taxes.

NO TAX ON TIPS

For the 2025 through 2028 tax years, individuals who receive qualified tips in occupations that traditionally earn tips can take a **federal income tax deduction** for **up to \$25,000 of tip income**. This is a deduction, not an exclusion — meaning tips are still reported and subject to payroll taxes (Social Security, Medicare), but the deduction reduces taxable income on your federal return. This deduction *applies per tax return*, and if you are MFJ it can't exceed \$25,000.

Who qualifies:

- Workers in occupations customarily and regularly receiving tips (per IRS guidance).
- Tips must be voluntary (cash, debit/credit card, gift card, etc.) and reported on tax forms (e.g., W-2 or 1099).
- The deduction begins to phase out for taxpayers above \$150,000 MAGI (\$300,000 for married filing jointly).

Example: If a server earns \$30,000 in tips for 2025 and qualifies, they may deduct **up to \$25,000** of that from federal taxable income when filing their 2025 tax return. To claim the deduction as married with the same limit \$25,000 for both, you must file a joint return.

Taxpayers filing married filing separately are not eligible to claim this deduction.

SALT DEDUCTION

For the **2025 tax year**, the OBBBA temporarily increases the federal deduction limit for state and local taxes (SALT) from the previous \$10,000 cap to a **maximum of \$40,000** for taxpayers who itemize deductions on their federal return. This higher cap applies to qualifying state and local income (or sales) and property taxes paid during the year.

This deduction is **subject to income-based phaseouts** — generally beginning to reduce once a taxpayer's modified adjusted gross income exceeds certain thresholds — and will revert back to the original \$10,000 limit **after 2029** *unless* extended.

AUTO LOAN INTEREST DEDUCTION

For tax years **2025 through 2028**, individuals may deduct **up to \$10,000** of interest paid on a loan used to purchase a new, personally-used vehicle that meets IRS criteria (e.g., U.S. assembled, first lien).

Limits & phaseouts:

- Deduction phases out for taxpayers with **MAGI over \$100,000** (single) or \$200,000 (joint).
- Only applies to qualifying interest on new auto loans originated **after December 31, 2024**.

Example: If you pay \$8,000 in interest on a qualifying new car loan in 2025, you may be able to deduct the full \$8,000 on your federal return, lowering taxable income (subject to income phase-out limits).

NO TAX ON OVERTIME PAY

Taxpayers who receive “**qualified overtime compensation**” (the extra pay above their regular rate, e.g., the premium portion of time-and-a-half) can take a **federal tax deduction** for that portion of overtime pay for tax years **2025–2028**. This is an above-the-line deduction (reduces Adjusted Gross Income), and applies whether or not you itemize in your tax return.

Limits & phaseouts:

- Maximum annual deduction: **\$12,500** (single) or **\$25,000** (married filing jointly).
- The deduction phases out for taxpayers with **MAGI over \$150,000** (\$300,000 joint).

Important:

Overtime is still taxable income during the year and subject to payroll taxes; the deduction applies when filing your federal income tax return.

Example:

If a worker's overtime pay premium for the year totals \$15,000, they could deduct up to **\$12,500** on their 2025 federal return, reducing their taxable income accordingly.

Taxpayers filing married filing separately are not eligible to claim this deduction.



2025 TAX YEAR - TAX RETURN GUIDE

EARNED INCOME TAX CREDIT (EITC)

Adjusted Gross Income (AGI) Limits

Children or relatives claimed	Filing as single, head of household, married filing separately or widowed	Filing as married filing jointly
Zero	\$19,104	\$26,214
One	\$50,434	\$57,554
Two	\$57,310	\$64,430
Three	\$61,555	\$68,675

Maximum Amount of Credit

No qualifying children: \$649

1 qualifying child: \$4,328

2 qualifying children: \$7,152

3 or more qualifying children: \$8,046

RETIREMENT PLANS - CONTRIBUTION & DEFERRAL LIMITS

IRA: For 2025, the total contributions you make each year to all of your traditional IRAs and Roth IRAs can't be more than: **\$7,000** (\$8,000 if you're age 50 or older), or, if less, your taxable compensation for the year.

Contributions an employer can make to an employee's SEP-IRA cannot exceed the lesser of: 25% of the employee's compensation, or **\$70,000** for 2025.

Deferral Limits for 401(K) Plans: The limit on employee elective deferrals (for traditional and safe harbor plans) is: **\$23,500**, subject to cost-of-living adjustments.

Deferral Limits for a SIMPLE 401(K) Plan: The limit on employee elective deferrals is: **\$17,000** (under age 50).

SIMPLE IRA: The amount an employee contributes from their salary to a SIMPLE IRA cannot exceed **\$16,500** in 2025.

ITEMS UNAFFECTED BY INDEXING

- For 2025, as in previous years, there is no overall limitation on **itemized deductions**, as the Tax Cuts and Jobs Act eliminated this limitation.
- The **personal exemption** for the 2025 tax year remains at **0**. This reduction to zero was part of the Tax Cuts and Jobs Act and continued by the One Big Beautiful Bill Act.

ADJUSTMENTS TO INCOME

- Self-employed SEP, SIMPLE, and qualified plans.
- Moving Expenses (allowed only to active members of the U.S. Armed Forces)
- Health Savings Account Deduction.
- Alimony Paid (before 2019)
- Deduction for IRA Contributions
- Educator Expenses
- Deductible Part of Self-Employment Tax
- Penalty for Early Withdrawal of Savings.

TAX CREDITS

Clean Vehicle Credit: The One Big Beautiful Bill Act ended the federal New Clean Vehicle Credit for vehicles acquired **after September 30, 2025** — the \$7,500 credit *no longer applies* for most new purchases after that date.

Child and Dependent Care Credit: If you paid someone to care for your child or another qualifying individual while you worked or looked for work, you might be eligible for this credit. The amount of the credit is determined by your income and a percentage of your caregiving expenses.

Credit for Other Dependents: Taxpayers with dependents who are ineligible for the Child Tax Credit may still qualify for the Credit for Other Dependents. The maximum credit is **\$500** for each dependent who meets specific criteria.

Residential Clean Energy Credit: Under IRS guidance and recent tax law changes, the Residential Clean Energy Credit at the 30 % rate is available only for property placed in service through **December 31, 2025**. Expenditures after this date generally *do not qualify* for the credit.

Energy Efficient Home Improvement Credit: The credit is available only for qualifying improvements placed in service **by December 31, 2025**. After that date, the credit generally *does not apply* for property placed in service in 2026 and beyond.

CHILD TAX CREDIT

You qualify for the full amount of the 2025 Child Tax Credit (CTC) for each qualifying child. If you meet **all eligibility factors** and your MAGI is not more than \$200,000 (\$400,000 if filing a joint return). In 2025, the credit can be as much as **\$2,200** for each qualifying child, with a portion of it (up to \$1,700) being refundable. **Because of recent tax legislation, at least one of the parents must have valid Social Security numbers to claim the CTC, which may affect eligibility for some families.**

