

Deductions and Exclusions form Income:

Medical Expenses	For 2025, your medical expenses are deductible as an itemized deduction to the extent they exceed 7.5% of you AGI. Medical expenses must be primarily to alleviate or prevent a physical or mental disability or illness. They don't include expenses merely beneficial to general health such as vitamins or vacations. Deductible expenses include the premiums you pay for insurance that covers the expenses of medical car, and the amounts you pay for transportation to get medical care. Medical expenses also include amounts paid for qualified long-term care services and limited amounts paid for any qualified long-term care insurance contract. Expenses are usable in the year they are paid.
Charitable Contributions	If you are itemizing deductions, you can maximize the tax benefit of making a charitable contribution by donation appreciated assets, such as stock instead of cash. Doing so generally allows you to deduct the fair market value of the asset while avoiding capital gains tax that would otherwise be due if you sold the asset. The more highly appreciated the asset, the better this strategy works.
Mortgage Interest Deduction	If the mortgage on your principal residence has a balance of \$750,000 or less, your mortgage interest will generally be fully deductible. If your loan balance is higher than \$750,000 deductibility depends on when you incurred the debt: Before 12-16-2017 \$1,000,000 or After 12-15-2017 \$750,000. The same limit that applies to your original mortgage applies to any refinancings. If your loan balance increases when you refinance (i.e., a "cash out" refinancing), the interest on the additional loan balance is only deductible to the extent you used the funds to substantially improve your home. If you operate a business from your home, any loan balance/interest we allocate to the business is not subject to the above limits.
Interest on Home Equity Loans	You can potentially deduct interest paid on home equity indebtedness, but only if you used the debt to substantially improve your home. Thus, for example, interest on a home equity loan used to build an addition to your existing home is typically deductible, while interest on the same loan used to pay personal expenses, such as credit card debt, is not. The balance of any home equity loans is added to the balance of your mortgage for purposes of applying the \$750,000/\$1,000,000 limits discussed above.
Student Loan Interest	You can deduct up to up to \$2,500 of interest paid on a qualified education loan in computing AGI. This is an above-the-line deduction, so you do not have to itemize to claim it. In 2025, the deduction is phased out for AGI above \$170,000 for married filing jointly and \$85,000 for all others.
Sale of a Home	If you sold your home this year and it was your principal residence for at least two of the five years before the sale, you can exclude from income up to \$250,000 of your gain on the sale (\$500,000 if you're married filing jointly and meet a few conditions). Your taxable gain is also reduced by any amounts that you spent on improvements and additions that add to the value of a residence, prolong its useful life, or adapt it to new uses. If you think your gain might exceed the \$250,000/\$500,000 exclusion, you'll want to put together records of any improvements you made to the home, which we can use to reduce your gain. I'd be happy to send you examples of what qualifies as an improvement for tax purposes and what doesn't. Note that if you rented out your home or used part of it for business purposes, your exclusion may be reduced. The reduction generally does not apply if you rent your home out for less than three years between the date you moved out and the date you sold it, if it was your principal residence prior to that. A loss on the sale of a principal residence is generally not deductible. But if you rented out your home or used it for business, the loss attributable to that portion of the home is deductible.

OBBBA Tax Break Updates: The end of the year is quickly approaching and as we prepare ourselves to serve you, we would like to share with you some of the changes to several of the tax requirements.

With the finalization of the One Big Beautiful Bill Act (OBBBA), the 2017 tax cuts became permanent and introduced a bunch of new tax breaks, and repeals all but a few of the clean energy tax credits. Because most of the changes apply to the 2025 tax year, we'll want to factor those into your year-end planning.

New Tax Breaks:

Tax Break	What that means to us as taxpayers.
Increased Salt (State and Local Tax) Limits	The biggest break for individuals in the OBBBA is not new, but it's greatly expanded. The limit on the state and local tax deduction has been increased from \$10,000 to \$40,000. You must itemize your deductions to take advantage of the SALT deduction. If you haven't itemized in recent years, the increased SALT limit may make it attractive to do so. The \$30,000 increase in the deduction limit starts phasing out for AGI (adjusted gross income) above \$500,000. A less favorable limit and phase out threshold apply to married individuals filing separately.
Deductions for Car Loan Interest	There is a new deduction of up to \$10,000 for interest on car loans taken out in 2024 for the purchase of a new personal use vehicle assembled in the U.S. The deduction is allowed through 2028 and begins to phase out for AGI above \$100,000 (\$200,000 for joint filers.) The deduction is available regardless of whether you itemize or take the standard deduction. Interest is applicable in the year it is paid. Used "new to you" vehicles are NOT eligible. Pro Tip: To find out if your vehicle was assembled in the U.S. go to vpic.nhtsa.dot.gov/decoder/ and enter the VIN and model year. The last item under "Other Information" is the final assembly plant's location.
Deductions for tip Income	A new deduction of up to \$25,000 in tips received by an individual in an occupation which customarily and regularly receives tips. The deduction is allowed for both employees and independent contractors. The deductions begin to phase out for AGI above \$150,000. (\$300,000 for joint returns.) The deduction is allowed through 2028 and is available whether you itemize or take the standard deduction. (Your last paystub will be required as documentation to calculate this credit, by IRS guidelines.)
Deductions for Overtime Pay	This is another new tax break available through 2028. This allows you to deduct up to \$12,500 (\$25,000 for joint returns.) for overtime pay that's required to be paid at time and a half by federal law. The deductions begin to phase out for AGI above \$150,000. (\$300,000 for joint returns.) The deduction is allowed through 2028 and is available whether you itemize or take the standard deduction. (Your last paystub will be required as documentation to calculate this credit, by IRS guidelines.)
Deductions for Seniors	The OBBBA added a new \$6,000 per person deduction for all individuals who have reached age 65 before the end of the tax year. This one works like personal exemptions used to do before they were repealed: it doesn't matter if you itemize or take the standard deductions and you don't have to do anything to claim it other than have a social security number (and file a joint return, if married). The senior deduction begins to phase out for AGI above \$75,000. (\$150,000 for joint returns.)
Charitable Contributions for Non-Itemizers	This will be available for 2026, but it's one you'll want to be aware of as you plan any year-end charitable contributions. The max deduction is \$1,000 (\$2,000 for joint returns). Eligible contributions must be made in cash (checks and credit/debit cards are also acceptable) to a public charity. There is no phase out for this deduction.
Itemized Deductions for Educator Expenses	One more tax break that will be available in 2026 is a new itemized deduction for educator expenses. This deduction for K-12 teachers is a complement to the long standing \$300 (\$350 for 2026) above-the-line deduction and the new itemized deduction: (1) there is no limit on the amount of the itemized deduction; and (2) educator expenses of interscholastic sports administrators and coaches are allowed, and "non-athletic supplies for courses of instruction in health or physical education" are allowed as eligible expenses. There is no phase out for this deduction, BUT you do have to itemize your deductions to take advantage of this.
Mortgage Insurance Premiums	Beginning in 2026, you can deduct mortgage insurance premiums as mortgage interest. The deduction is phased out for AGI above \$100,000 (\$50,000 for married filing separately).

Tax Credits: Tax credits are more favorable than deductions because a tax credit reduces the amount of income tax you may have to pay. Unlike a deduction, which reduces the amount of income subject to tax, a credit directly reduces the tax itself. The following are the main tax credits available for individuals in 2025:

Residential Clean Energy Credit.	The residential clean energy credit is one of the casualties of the 2025 Tax Act's broad repeal of clean energy credits. Its expiration date has been moved from December 31, 2032, to December 31, 2025. The amount of the credit equals 30 percent of the cost (with no cap) of qualified residential energy property, such as solar energy systems, solar water heaters, and battery storage. While you can still take advantage of the credit, be aware that the IRS requires that qualified property must be paid for and installed by December 31. So, make sure that your contractor can commit to completing the project by that deadline and that you can get out of the deal if they don't follow through.
Energy Efficient Home Improvement Credit	Another credit expiring on December 31, 2025, is the energy efficient home improvement credit. This credit equals 30 percent of the cost of installing energy efficient doors, windows, central air conditioners, electric panels, water heaters and several other qualifying improvements. The credit has a dollar limit for each type of improvement and an overall annual limit of \$1,200. Heat pumps, heat pump water heaters, biomass stoves, and boilers have a separate \$2,000 annual limit, bringing the total potential value of the credit to \$3,200.
Child Tax Credit.	For 2025, you can claim a tax credit of \$2,200 (up to \$1,700 is refundable) for each dependent child under age 17, and a \$500 credit for qualifying dependents other than qualifying children. The credit is phased out for AGI over \$200,000 (\$400,000 for married filing jointly). For 2025, new requirements for providing social security numbers apply.
Earned Income Credit.	The earned income tax credit (EITC) is a generous credit based on a percentage of earned income that phases out at relatively low levels of income. For 2025, the credit completely phases out at AGI of \$68,675 for individuals with three qualifying children and at lower levels for individuals with fewer children (or none). The credit is unavailable to individuals with more than \$11,950 in investment income.
Dependent Care Credit:	If you incurred eligible expenses to care for a dependent under age 13 so that you can work or look for work, you can claim the child and dependent care credit. The credit is based on a percentage of eligible expenses. For 2025, the percentage ranges from 20 to 35% based on AGI. Up to \$3,000 in childcare expenses can be considered for one qualifying dependent (up to \$6,000 for two or more qualifying dependents). Although the credit phases down to 20% at relatively low levels of income, it does not go any lower, even for very high incomes.
Premium Tax Credit.	A health insurance subsidy is available in the form of a premium assistance tax credit for eligible individuals and families who purchase health insurance through the Affordable Care Act's Health Insurance Marketplace (aka, the "Exchange"). This credit is refundable and payable directly to the insurer on the Exchange. Beginning in 2026, individuals with incomes exceeding 400 percent of the poverty level will not be eligible for the credit (there was no such limit from 2021-2025).
American Opportunity Tax Credit.	If you have one or more postsecondary students in the family, you may qualify for an American opportunity tax credit of up to \$2,500 per year for each eligible student. The credit, which is available for the first four years of a student's postsecondary education, is based on 100 percent of the first \$2,000 of qualified education expenses and 25 percent of the next \$2,000 of such expenses paid. The credit is phased out for AGI above \$80,000 (\$160,000 for joint filers).
Lifetime Learning Credit.	The lifetime learning credit applies to tuition and fees paid for the enrollment or attendance of yourself, your spouse, or your dependents for courses of instruction at an eligible educational institution. The credit, which is limited to \$2,000 per tax return per year, is based on 20 percent of the first \$10,000 in qualifying expenses. The credit is phased out for AGI above \$80,000 (\$160,000 for joint filers). The lifetime learning credit and the American opportunity tax credit cannot be claimed for the same student in the same year
Savers Credit.	For 2025, a retirement savings credit of up to \$1,000 (\$2,000 for joint filers) is available for qualified contributions made to a traditional IRA, a Roth IRA, and several other types of retirement plans. The credit is calculated by multiplying up to \$2,000 of an individual's qualified contributions by a percentage of either 50, 20, or 10 percent determined using the individual's AGI and filing status. For 2025, the highest income that qualifies for the 10 percent credit is \$79,000.

Section 529 Plans Enhancements

The OBBBA brought plenty of good news for 529 plan owners. You can now withdraw funds for a wide range of K-12 expenses (as opposed by tuition only under the old rules). Eligible expenses include amounts paid for curricular materials, books or other instructional materials, online educational materials, tutoring or educational classes outside the home, testing fees, dual enrollment in an institution of higher education, and educational therapies for students with disabilities. Beginning in 2026, the limit of withdrawals for K-12 expenses doubles, from \$10,000 to \$20,000. Section 529 plan funds can also now be used for post-secondary credentialing expenses, a broad new category that includes vocational training and licensing programs, continuing education (where required to maintain a credential), fees for licensing and certification exams, and many other postsecondary educational expenses that fall outside the realm of traditional higher education. There is no annual limit on withdrawals used to pay for such expenses.

Retirement Plans, HSAs, and FSAs, and Trump Accounts

Retirement Plans. If you can afford to do so, investing the maximum amount allowable in a qualified retirement plan will yield a large tax benefit. If your employer has a 401(k) plan and you are under age 50, you can defer up to \$23,500 of income into that plan for 2025. Catch-up contributions of \$7,500 are allowed if you are 50 or over, and "super" catch-up contributions of \$11,250 are allowed if you are 60, 61, 62, or 63.

If you have a SIMPLE 401(k), the maximum pre-tax contribution for 2025 is \$16,500. That amount increases to \$20,000 if you are 50 or older and \$21,750 if you are 60, 61, 62, or 63.

The maximum IRA deductible contribution for 2025 is \$7,000 and that amount increases to \$8,000 if you are 50 or over. Also, don't overlook the possibility of a spousal IRA, which allows a spouse who does not have enough taxable compensation to make a maximum IRA contribution to use a portion of the other spouse's taxable compensation in calculating his or her own allowable contribution for the year.

Health Savings Accounts. You may also want to consider health saving accounts (HSAs) if you don't already have one. These are tax-advantaged accounts for individuals who have high-deductible health plans (HDHPs). If you are eligible to set up such an account, you can deduct the amount you contribute to the account in computing AGI. These contributions are deductible whether you itemize deductions or not. Withdrawals from an HSA are tax free if they are used to pay for qualified medical expenses (i.e., medical, dental, and vision expenses). Unused amounts accumulate in the HSA and grow tax free. For 2025, the annual contribution limits are \$4,300 for an individual with self-only coverage and \$8,550 for an individual with family coverage.

Flexible Spending Accounts. If your employer offers a Flexible Spending Account (FSA), consider setting aside some of your earnings tax free in such an account so you can pay medical and dental bills with pre-tax money. Since you don't pay taxes on this money, you'll save an amount equal to the taxes you would have paid on the money you set aside. FSA funds can be used to pay deductibles and copayments, but not for insurance premiums. You can also spend FSA funds on prescription medications, as well as over-the-counter medicines, generally with a doctor's prescription. The only catch is that FSAs have a use-it-or-lose-it rules unused funds do not carry over from one year to the next.

Trump Accounts. Trump accounts are essentially non-deductible IRAs for children that will transform into traditional IRAs when the beneficiary reaches age 18. Accounts will be allowed to start accepting contributions on July 4, 2026. We should see guidance on how parents can set up accounts for their children ahead of that date. Accounts can accept an aggregate of \$5,000 in contributions annually from parents and other individuals. There are several provisions that allow employers, nonprofits, and government entities to make contributions that are not counted toward the annual limit. Funds in a Trump account grow tax-free and must be invested in S&P index funds or similar equity index funds.

Life Events

Life events can have a significant impact on your tax liability. For example, if you have head of household filing status in 2025, but you no longer provide a home for a qualifying dependent in 2026, your filing tax status will change to single in 2026. As a result, your tax rates will go up, and your standard deduction will go down (the opposite of what happens if you go from single to head of household).

If you were married or divorced during the year and changed your name, you need to notify the Social Security Administration (SSA). A mismatch between the name shown on the tax return and the SSA records can cause problems in the processing of your tax return and may even delay tax refunds.

Let me know if you have been impacted by a life event, such as a birth or death in your family, a change in marital status, the loss of a job or a change in jobs, or a retirement during the year. All of these can affect your tax situation.