IMAGE BY LOFFOFORA/ADOBE STOCK

Get ready for tax season

Guide clients through the significant changes in H.R. 1.

By Alistair M. Nevius, J.D.

Clients will need more help than usual this tax season, as last summer's H.R. 1, P.L. 119-21, known as the One Big Beautiful Bill Act, made federal taxes more complicated for many individuals. The law introduced new deductions and made significant changes to many existing tax provisions.

However, the millions of taxpayers who stopped itemizing deductions when the Tax Cuts and Jobs Act (TCJA), P.L. 115-97, increased the standard deduction amount will continue to see simpler tax return calculations, as H.R. 1 made the TCJA's increased standard deduction and tax rates permanent. The act made many other TCJA provisions, which had been scheduled to expire at the end of 2025, permanent.

Here's a look at what's new and what has changed that will affect 2025 tax returns.

H.R. 1 CHANGES TO EXISTING TAX PROVISIONS

Standard deduction, tax brackets, and personal exemptions

The TCJA's tax rates of 10%, 12%, 22%, 24%, 32%, 35%, and 37% were made permanent by the act. (See the Filing Season Quick Guide on page 12 for where the brackets begin and end.) For 2025, the standard deduction is $15,750 for single filers, $31,500 for married individuals filing jointly, and $23,625 for heads of household. H.R. 1 also made permanent the TCJA's removal of the deduction for personal exemptions.

Miscellaneous itemized deductions

H.R. 1 made the TCJA's suspension of miscellaneous itemized deductions permanent.

Alternative minimum tax

The act permanently extended the TCJA's higher alternative minimum tax (AMT) exemption amounts and exemption phaseout thresholds, indexed for inflation. (See the Filing Season Quick Guide on page 12.)

State and local tax deduction

Beginning in 2025, H.R. 1 increased the limit on the federal deduction for state and local taxes (the SALT cap) to $40,000 ($20,000 for married taxpayers filing separately). The TCJA had set the cap at $10,000. The amount of the deduction available to a taxpayer is reduced by 30% of the amount the taxpayer's modified adjusted gross income (MAGI) exceeds $500,000 ($250,000 for married taxpayers filing separately); however, the deduction amount can't be phased out below $10,000 ($5,000 for married taxpayers filing separately). Also, the various workarounds that states have enacted to help taxpayers avoid the SALT cap, such as passthrough entity tax (PTET) deductions for owners of passthrough entities, were not affected by the act.

Child tax credit increase

For clients with dependent children, the act permanently increased the Sec. 24 nonrefundable child tax credit to $2,200 per child beginning in tax year 2025. The refundable child tax credit (the additional child tax credit) was also made permanent ($1,700 in 2025). In addition, the phaseout threshold amounts for the credit of $200,000 ($400,000 in the case of a joint return) and the $500 nonrefundable credit available

About the author

Alistair M. Nevius, J.D., is a freelance writer based in North Carolina. To comment on this article or to suggest an idea for another article, contact Paul Bonner at Paul.Bonner@aicpa-cima.com.

for each dependent of the taxpayer other than a qualifying child were made permanent.

Social Security numbers (SSNs) must be shown on the return for each child for whom the credit is being claimed, but also, new for 2025, the taxpayer claiming the credit (or in the case of a joint return, at least one of the spouses) must have an SSN, which must be included on the taxpayer's return.

Mortgage interest

The act made permanent the provision limiting the Sec. 163 qualified residence interest deduction to the first $750,000 in home mortgage acquisition debt. It also permanently excludes interest on home-equity indebtedness from the definition of qualified residence interest. However, the act reinstated, starting in 2026, the provision allowing certain mortgage insurance premiums on acquisition indebtedness to count as qualified residence interest (which had expired after 2021).

Moving expenses

H.R. 1 made the TCJA's elimination of the moving expense deduction permanent. Currently, only active-duty members of the U.S. armed forces may take the deduction. Starting in 2026, certain members of the intelligence community will also be eligible.

Sec. 199A qualified business income deduction

The act made permanent the Sec. 199A qualified business income (QBI) deduction. In addition, beginning in 2026, it expanded the phase-in range for the specified service trades or businesses (SSTBs) and wage and investment limitations by increasing the $50,000 amount for nonjoint returns to $75,000 and the $100,000 amount for joint returns to $150,000. The act also introduced, beginning in 2026, a minimum deduction of $400 (adjusted for inflation) for taxpayers who have at least $1,000 of QBI from one or more active trades or businesses in which they materially participate.

Adoption credit

Starting in 2025, for clients who have adopted a child during the year, H.R. 1 made a portion of the Sec. 23 adoption credit — up to $5,000 — refundable.

Bonus depreciation

The Sec. 168 additional first-year (bonus) depreciation deduction was increased by the act to 100% for property acquired and placed in service on or after Jan. 19, 2025, as well as for specified plants planted or grafted on or after Jan. 19, 2025. However, property that taxpayers placed in service in the first 18 days of 2025 is subject to the former, reduced rate of 40%.

Sec. 179

For property placed in service in 2025, H.R. 1 set the maximum amount a taxpayer may expense under Sec. 179 at $2.5 million, reduced by the amount by which the cost of the qualifying property exceeds $4 million.

Research-and-development expenses

H.R. 1 enacted new Sec. 174A, which allows taxpayers to immediately deduct domestic research or experimental expenditures paid or incurred in tax years beginning after Dec. 31, 2024. Research or experimental expenditures attributable to research conducted outside the United States will continue to be required to be capitalized and amortized over 15 years under Sec. 174.

NEW TAX BREAKS

H.R. 1 introduced four new income tax deductions, but the IRS did not update information returns or withholding tables for 2025 to reflect these deductions. It also didn't update its online Tax Withholding Estimator. To claim these deductions, taxpayers will need to include Schedule 1-A, *Additional Deductions*, with their returns in the Form 1040 series. The new schedule includes sections for calculating a taxpayer's senior deduction, tip income deduction, overtime income deduction, and car loan interest deduction (all discussed below).

Senior deduction

H.R. 1 from 2025 through 2028 allows individuals who are age 65 and older to claim a deduction of $6,000. Married couples can claim a $12,000 deduction if they both qualify. The deduction phases out for taxpayers with MAGI over $75,000 ($150,000 for joint filers). To qualify, a taxpayer must turn 65 on or before the last day of the tax year. This new deduction is in addition to the current additional standard deduction for seniors of $1,600, or $2,000 if the individual is unmarried and not a surviving spouse.

Tip income deduction

For the years 2025 through 2028, the act created a deduction of up to $25,000 for qualified tips received by an individual in an occupation that customarily and regularly receives tips. The deduction can be claimed by employees receiving a Form W-2, *Wage and Tax Statement*, and independent contractors who receive Form 1099-K, *Payment Card and Third Party Network Transactions*, or Form 1099-NEC, *Nonemployee Compensation*, or who report tips on Form 4137, *Social Security and Medicare Tax on Unreported Tip Income*. The deduction is available for taxpayers who claim the standard deduction or itemize deductions.

The deduction begins to phase out for taxpayers with MAGI over $150,000 ($300,000 in the case of a joint return). For tax year 2025, employers required to furnish statements enumerating an individual's tips can use "any reasonable method" to estimate designated tip amounts.

In proposed regulations released in September (REG-110032-25), the IRS specified that to qualify for the deduction, the tips must be received from customers or through a mandatory or voluntary tip-sharing arrangement, such as a tip pool. Qualified tips must be paid voluntarily by the customer and not be subject to negotiation. In cases where an automatic service charge is added to a bill with no option for the customer to disregard or modify it, the amounts distributed to the workers from it are not qualified tips.

Only taxpayers who work in occupations that customarily and regularly received tips before Dec. 31, 2024, are eligible for the deduction. The proposed regulations include a list of these occupations with illustrative examples (Prop. Regs. Sec. 1.224-1(f)(1), Table 1). They include various food service, entertainment, hospitality, home service, personal service, wellness, recreation, and transportation and delivery occupations.

Note that taxpayers who conduct or are employed by a trade or business that is an SSTB under Sec. 199A(d)(2) are not eligible for the "no tax on tips" deduction. SSTBs include any trade or business involving the performance of services in the fields of health; law; accounting; actuarial science; performing arts; consulting; athletics; financial services; brokerage services; investing and investing management; trading or dealing in securities, partnership interests, or commodities; or any trade or business where the principal asset of the trade or business is the reputation or skill of one or more of its employees or owners.

According to the proposed regulations, the SSTB rule supersedes the list of eligible occupations, so, if an employee is employed by an SSTB, no part of their tip income related to that employment is deductible, even if that employment is in an otherwise eligible occupation (Prop. Regs. Sec. 1.224-1(c)(4)).

For self-employed taxpayers, the deduction cannot exceed the individual's net income (without regard to the tip income deduction) from the trade or business in which the tips were earned. And married taxpayers must file jointly to claim the deduction.

Overtime income deduction

H.R. 1 also created a temporary deduction of up to $12,500 ($25,000 in the case of a joint return) for qualified overtime compensation received by an individual during a given tax year. This deduction is also available for 2025 through 2028, and nonitemizers can claim it. The deduction begins to phase out when the taxpayer's MAGI exceeds $150,000 ($300,000 in the case of a joint return), phasing out by $100 for every $1,000 the taxpayer's MAGI exceeds the threshold. For single taxpayers, it phases out completely at MAGI of $275,000 and for joint filers at MAGI of $550,000.

Qualified overtime compensation is overtime compensation paid to an individual required under Section 7 of the Fair Labor Standards Act of 1938 that is in excess of the regular rate (as used in that section) at which the individual is employed. Note that only the portion of overtime pay that exceeds the taxpayer's regular rate of pay is eligible for the deduction — in other words, if the employee earns "time and a half" for overtime, only the "and a half" portion is deductible.

The qualified overtime compensation must be reported separately to the employee on Form W-2 for the employee to claim the deduction. Married individuals must file jointly to claim the deduction.

Auto loan interest deduction

Starting in 2025 and through 2028, individuals can deduct up to $10,000 in interest paid on a loan used to purchase a qualified vehicle. The deduction phases out for taxpayers with MAGI over $100,000 ($200,000 for married taxpayers filing jointly). To qualify for the deduction, the interest must be paid on a loan that is (1) originated after Dec. 31, 2024; (2) used to purchase a vehicle, the original use of which starts with the taxpayer (used vehicles do not qualify); (3) for a personal-use vehicle (not for business or commercial use); and (4) secured by a first lien on the vehicle.

A qualified vehicle is a car, minivan, van, SUV, pickup truck, or motorcycle with a gross vehicle weight rating of less than 14,000 pounds that has undergone final assembly in the United States, among other requirements. As of this writing, the IRS has not published a list of eligible vehicles.

EXPANSION OF EXISTING TAX BREAKS

Health savings account eligibility

H.R. 1 added a safe harbor to allow a health plan to qualify as a high-deductible health plan (HDHP) even if it does not have a deductible for telehealth services, applicable to plan years beginning after Dec. 31, 2024.

LEARNING RESOURCES

AICPA ENGAGE 26

Tax will be a big part of the agenda as the biggest event in the accounting profession celebrates its 10th anniversary at the ARIA in Las Vegas. Don't miss it!

June 8–11

CONFERENCE

AICPA Tax Section membership

Discover the premier benefits of Tax Section membership to keep pace with tax changes and meet market and client demands. Benefits include 16 free CPE hours, the Annual Tax Compliance Kit, a weekly e-newsletter, and *The Tax Adviser*. For more information, click on the Tax Section membership headline above.

SECTION

For more information or to make a purchase, go to aicpa-cima.com/cpe-learning or call 888-777-7077.

MEMBER RESOURCES

Websites

- AICPA State and Local Tax (SALT) Resource Center
- AICPA and Tax Section Tax Season Resource Center
- Tax Section News and Member FAQ

REPEAL OF EXISTING PROVISIONS

Electric vehicle credits

The Sec. 30D clean vehicle credit, the Sec. 25E previously owned clean vehicle credit, and the Sec. 45W qualified commercial clean vehicle credit were all eliminated for vehicles acquired after Sept. 30, 2025. ■

Filing season quick guide — tax year 2025

Single taxpayers

If taxable income is over	But not over	Tax is	Plus	Of the amount over
$0	$11,925	10%		$0
$11,925	$48,475	$1,192.50	12%	$11,925
$48,475	$103,350	$5,578.50	22%	$48,475
$103,350	$197,300	$17,651	24%	$103,350
$197,300	$250,525	$40,199	32%	$197,300
$250,525	$626,350	$57,231	35%	$250,525
$626,350		$188,769.75	37%	$626,350

Married taxpayers filing joint returns and surviving spouses

If taxable income is over	But not over	Tax is	Plus	Of the amount over
$0	$23,850	10%		$0
$23,850	$96,950	$2,385	12%	$23,850
$96,950	$206,700	$11,157	22%	$96,950
$206,700	$394,600	$35,302	24%	$206,700
$394,600	$501,050	$80,398	32%	$394,600
$501,050	$751,600	$114,462	35%	$501,050
$751,600		$202,154.50	37%	$751,600

Married taxpayers filing separate returns

If taxable income is over	But not over	Tax is	Plus	Of the amount over
$0	$11,925	10%		$0
$11,925	$48,475	$1,192.50	12%	$11,925
$48,475	$103,350	$5,578.50	22%	$48,475
$103,350	$197,300	$17,651	24%	$103,350
$197,300	$250,525	$40,199	32%	$197,300
$250,525	$375,800	$57,231	35%	$250,525
$375,800		$101,077.25	37%	$375,800

Heads of household

If taxable income is over	But not over	Tax is	Plus	Of the amount over
$0	$17,000	10%		$0
$17,000	$64,850	$1,700	12%	$17,000
$64,850	$103,350	$7,442	22%	$64,850
$103,350	$197,300	$15,912	24%	$103,350
$197,300	$250,500	$38,460	32%	$197,300
$250,500	$626,350	$55,484	35%	$250,500
$626,350		$187,031.50	37%	$626,350

Filing season quick guide — tax year 2025

Trusts and estates

If taxable income is over	But not over	Tax is	Plus	Of the amount over
$0	$3,150	10%		$0
$3,150	$11,450	$315	24%	$3,150
$11,450	$15,650	$2,307	35%	$11,450
$15,650		$3,777	37%	$15,650

Long-term capital gains rates

Filing status or entity	0% rate: Taxable income of	15% rate: Taxable income of	20% rate: Taxable income of
Married filing jointly	$0 to $96,700	$96,701 to $600,050	$600,051 and over
Married filing separately	$0 to $48,350	$48,351 to $300,000	$300,001 and over
Heads of household	$0 to $64,750	$64,751 to $566,700	$566,701 and over
Single	$0 to $48,350	$48,351 to $533,400	$533,401 and over
Trusts and estates	$0 to $3,250	$3,251 to $15,900	$15,901 and over

NET INVESTMENT INCOME TAX

3.8% of the lesser of (1) net investment income or (2) the amount of modified adjusted gross income (MAGI) over these thresholds:

- Single: $200,000
- Married filing jointly and surviving spouses: $250,000
- Married filing separately: $125,000
- Heads of household: $200,000
- Estates and trusts: $15,650

KIDDIE TAX

For a child subject to the kiddie tax, the net unearned income of the child (limited to the individual's taxable income) is taxed at the parents' marginal tax rate. Net unearned income for 2025 is the portion of the child's adjusted gross income (AGI) not attributable to earned income, over the sum of (1) $1,350 plus (2) the greater of $1,350 or, if the child itemizes deductions, those itemized deductions directly connected to the production of the unearned income.

SELF-EMPLOYMENT TAX

- Tax rate: 15.3% (12.4% OASDI tax plus 2.9% Medicare tax).
- Surtax: 0.9% Medicare surtax is applied to self-employment income in excess of $200,000 (single), $250,000 (married filing jointly), or $125,000 (married filing separately).
- Wage base: $176,100 of self-employment income for OASDI (maximum OASDI tax of $21,836.40; no ceiling on Medicare tax).

PERSONAL EXEMPTION

The law known as the One Big Beautiful Bill Act (OBBBA), H.R. 1, P.L. 119-21, permanently sets the deduction for personal exemptions at zero.

Filing season quick guide — tax year 2025

STANDARD DEDUCTION

- Single: $15,750
- Married filing jointly and surviving spouses: $31,500
- Married filing separately: $15,750
- Heads of household: $23,625

Additional standard deduction for age 65+ or blind taxpayers:

- Unmarried individuals other than surviving spouses: $2,000
- All other taxpayers: $1,600
- In addition, the OBBBA provides a $6,000 deduction for individual taxpayers (and, on joint returns, a qualifying spouse) age 65 or older, subject to phaseout with MAGI over $75,000 ($150,000 for a joint return).

Standard deduction for individuals who can be claimed as dependents: the lesser of (1) $15,750 or (2) the greater of $1,350 or $450 plus the individual's earned income.

ITEMIZED DEDUCTIONS

Miscellaneous itemized deductions are disallowed.

STANDARD MILEAGE RATE

- Business: 70 cents per mile. Business mileage is no longer deductible as an unreimbursed employee business expense except for members of a reserve component of the U.S. armed forces, state or local government officials paid on a fee basis, and certain performing artists.
- Medical and moving: 21 cents per mile.
- Charitable services: 14 cents per mile.

For business autos for which the optional business standard mileage rate is used, the portion treated as depreciation is 33 cents per mile.

TAX CREDITS

- **Earned income:** Maximum credit depends on number of qualifying children: $649 (none); $4,328 (one); $7,152 (two); and $8,046 (three or more), subject to phaseouts. The ceiling for disqualifying investment income is $11,950.
- **Child:** Maximum credit per child $2,200, with maximum refundable portion $1,700. Phases out at AGI above $200,000 (single) and $400,000 (married filing jointly). Social Security numbers required for taxpayers (or, on a joint return, at least one spouse) and qualifying children.
- **Adoption expense:** $17,280 maximum; phases out with MAGI between $259,190 and $299,190. Up to $5,000 refundable.
- **American opportunity:** $2,500 per year, per student maximum (100% of the first $2,000 of qualifying expenses and 25% of the next $2,000 paid by the taxpayer), with 40% of the credit refundable unless the taxpayer is a child subject to the kiddie tax. Phases out for single taxpayers with MAGI between $80,000 and $90,000 ($160,000–$180,000 for married taxpayers filing jointly).
- **Lifetime learning:** 20% of up to $10,000 of qualified tuition and related expenses paid by the taxpayer. Phases out between $80,000 and $90,000 of MAGI for single filers and $160,000–$180,000 for married taxpayers filing jointly.
- **Sec. 25D residential clean energy:** 30% of amount paid for qualifying property (for qualified fuel cell property, maximum credit of $500 for each 0.5 kilowatt of capacity).
- **Small business health insurance:** 50% of amount of nonelective contributions an eligible small employer makes on behalf of its employees for premiums for certain health insurance coverage (35% credit against payroll tax for a tax-exempt small employer). Available for two consecutive tax years. Phases out for employers with 10–25 full-time-equivalent employees and average annual wages between $33,300 and $66,600.

Filing season quick guide — tax year 2025

SAVER'S CREDIT APPLICABLE PERCENTAGES

AGI, married filing jointly	AGI, heads of household	AGI, all other filers	Applicable percentage
$0 to $47,500	$0 to $35,625	$0 to $23,750	50%
$47,501 to $51,000	$35,626 to $38,250	$23,751 to $25,500	20%
$51,001 to $79,000	$38,251 to $59,250	$25,501 to $39,500	10%

SEC. 179 AND BONUS DEPRECIATION

- Sec. 179 expense deduction: $2,500,000, with a phaseout threshold of $4,000,000.
- Sec. 168(k) bonus depreciation: 100%, for most property placed in service on or after Jan. 19, 2025.

RETIREMENT PLAN LIMITS

- Maximum 401(k) plan elective deferral: $23,500 (plus $7,500 catch-up for individuals age 50+ and $11,250 for individuals who attain age 60–63 in 2025).
- Defined benefit plan maximum benefit: $280,000.
- Defined contribution plan contribution limit: $70,000 or 100% of compensation, whichever is less.
- IRA deductible contribution limit: $7,000 (plus $1,000 catch-up for age 50+).
- IRA deduction phaseout for active participant in a workplace retirement plan: MAGI from $126,000–$146,000 (married filing jointly); $79,000–$89,000 (single taxpayers and heads of household); $0–$10,000 (married filing separately); $236,000–$246,000 (individual who is not an active participant in a workplace retirement plan but whose spouse is).
- Roth IRA contribution limit: $7,000 (plus $1,000 catch-up for age 50+).
- Roth IRA contribution limit phaseout (MAGI): $236,000–$246,000 (married filing jointly); $150,000–$165,000 (single and heads of household); $0–$10,000 (married filing separately).
- SEP minimum required compensation: $750; compensation limit for determining maximum allowable contributions by employer: $350,000.

ESTATES AND GIFTS

- Per-donee annual gift tax exclusion: $19,000.
- Annual exclusion of transfers to noncitizen spouse: $190,000.
- Gift/estate tax exclusion: $13,990,000; estate of first spouse to die may pass unused portion of exclusion to surviving spouse.

ALTERNATIVE MINIMUM TAX

Filing status or entity	AMT exemption amount	AMTI phaseout of exemption*
Married filing jointly or surviving spouses	$137,000	$1,252,700 to $1,800,700
Single or heads of household	$88,100	$626,350 to $978,750
Married filing separately	$68,500	$626,350 to $900,350
Estates and trusts	$30,700	$102,500 to $225,300

* At 25% of AMTI above phaseout threshold.

IMAGE BY ANTONIO RODRIGUEZ/ADOBE STOCK

How a CPA beat burnout after strokes, years of depression

After suffering two strokes in four days, the author battled mental health issues before he learned to recognize, address, and prevent chronic stress.

By Randy Crabtree, CPA