Henry Murphy CPA Annual Tax Update
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(And Artificial Intelligence!)

Major 2025 IRS tax changes, largely due to the "One Big Beautiful Bill Act" passed in July 2025, include permanent extensions of the 2017 tax cuts, increased standard deductions and child tax credits, and new temporary deductions for tips, overtime pay, and seniors.

Key Individual Tax Changes for 2025

- Tax Brackets and Rates: The seven federal income tax brackets (10%, 12%, 22%, 24%, 32%, 35%, and 37%) from the Tax Cuts and Jobs Act (TCJA) have been made permanent and are adjusted for inflation.
- Standard Deduction: The standard deduction amounts have increased and were made permanent at higher levels.
  - Single or Married Filing Separately: $15,750.
  - Married Filing Jointly: $31,500.
  - Head of Household: $23,625.
- New Deductions (Temporary, 2025-2028):
  - Seniors: Individuals age 65 and older can claim an additional deduction of up to $6,000 ($12,000 for qualifying married couples) on top of the standard or itemized deduction. This benefit phases out for higher-income earners.
  - Tips: An eligible worker can deduct up to $25,000 in qualified tips, subject to income limitations.
  - Overtime Pay: A deduction is available for the portion of qualified overtime pay that exceeds the regular rate of pay (e.g., the "half" in time-and-a-half pay), capped at $12,500 ($25,000 for joint filers) and subject to income limits.
  - Car Loan Interest: You may deduct interest paid on a loan used to purchase a new, U.S.-assembled vehicle for personal use, up to $10,000 annually, with income phaseouts.
- Child Tax Credit: The maximum credit increased to $2,200 per qualifying child under age 17, and up to $1,700 may be refundable. The credit for other dependents is $500.
- State and Local Taxes (SALT): The cap on the itemized SALT deduction has temporarily increased to $40,000 for married couples filing jointly, with phaseouts for high-income taxpayers.
- Retirement Contributions: Contribution limits for various retirement accounts have been adjusted. For 2025, the 401(k) limit is $23,500 (with a $7,500 catch-up) and the IRA limit is $7,000 (with a $1,000 catch-up).
- Clean Vehicle Credits: Credits for new and used clean vehicles are not available for any vehicle acquired after September 30, 2025.
- New Reporting Requirements: Brokers are required to report digital asset (cryptocurrency) transactions on the new Form 1099-DA. The threshold for third-party payment network transactions (e.g., Venmo, PayPal for business) for receiving a Form 1099-K has reverted to over $20,000 and more than 200 transactions.
- "Trump Accounts": A new type of investment account for babies born between 2025 and 2028 has been established, with a one-time $1,000 government contribution available by filing Form 4547. Parents, guardians, or others can establish a Trump Account for an eligible child. Trump Accounts cannot be funded before July 4, 2026. The federal government will make a one-time $1,000 contribution for each eligible child's account. Authorized contributions from individuals and employers are allowed up to $5,000 per year. Employers can contribute up to $2,500 per year toward an employee's or dependent's Trump Account without it counting as taxable income for the employee. Funds must be invested in certain mutual funds or exchange-traded funds that track a

U.S. stock index such as the S&P 500. Withdrawal and use Generally, money cannot be withdrawn before the year the child turns 18. After that point, the account is treated like a traditional IRA with similar tax rules.

- 2026 Charitable Deduction Rules have changed. Taxpayers who take the standard deduction can claim an additional "above-the-line" deduction for cash contributions to qualified public charities. Taxpayers who itemize face a new 0.5% AGI “Floor” and a few other changes.
- Business Changes: The legislation permanently extended 100% bonus depreciation for certain property placed in service after January 19, 2025, and made the 20% Qualified Business Income (QBI) deduction permanent. Office parties, picnics and social events generally still 100% deductible. Entertainment is not deductible. In 2025, business meals can be 50% deductible, but in 2026, most meals will not be deductible. Form 1099-MISC or Form 1099-NEC Threshold increased from $600 to $2000 Applies to payments made after December 31, 2025

New Jersey (NJ) Tax Changes for 2025

Key updates and programs for NJ residents include:

- Property Tax Relief Programs:
  - The State of New Jersey has three property tax benefit programs. One of them is available to both homeowners and renters.
  - You must have an “ANCHOR” benefit application on file by October 31 in order to take advantage of any of them. NJ, in many cases, will file the benefit application for you.
- Income Tax & Credits:
  - The NJ Child Tax Credit remains up to $1,000 per child age 5 or younger for residents with taxable income of $80,000 or less.
  - The NJ Earned Income Tax Credit is 40% of the federal EITC.
  - Residents who pay rent may be able to deduct up to 18% of their rent paid.

Single or Married/Civil Union Filing Separately

| Taxable Income | Tax Rate |
|---|---|
| $0 to $20,000 | 1.40% |
| $20,000 to $35,000 | 1.75% |
| $35,000 to $40,000 | 3.50% |
| $40,000 to $75,000 | 5.53% |
| $75,000 to $500,000 | 6.37% |
| $500,000 to $1,000,000 | 8.97% |
| $1,000,000 or more | 10.75% |

Married/Civil Union Filing Jointly, Head of Household, or Qualifying Surviving Spouse/CU Partner

| Taxable Income | Tax Rate |
|---|---|
| $0 to $20,000 | 1.40% |
| $20,000 to $50,000 | 1.75% |
| $50,000 to $70,000 | 2.45% |
| $70,000 to $80,000 | 3.50% |
| $80,000 to $150,000 | 5.53% |
| $150,000 to $500,000 | 6.37% |
| $500,000 to $1,000,000 | 8.97% |
| $1,000,000 or more | 10.75% |