Westfield CPAs, LLC
241 North Ave West
Westfield, NJ 07090

WestfieldCPAs.com
908-233-7900

July 28, 2025

Dear Clients & Friends,

By now most people have heard that there was a large tax bill signed, often coined, "One Big Beautiful Bill." Regardless of what you hear on the news, 95% of the new law simply extends the same tax laws we have had on the books since 2017 or earlier. In some cases, the laws were rounded up, or made slightly better, but not relevant enough to make this newsletter. We will share the points that matter most to our clients.

Most tax breaks and incentives are temporary. Not because politicians want them to go away, but because the projected cost is less. But it's usually disingenuous as these laws typically keep getting extended anyway. We refer to them as "extenders." For example, there is a temporary $2,000 tax credit for having children under 17 years old. No politician can take this away, so let's admit that it's here to stay and account for it. It's a game where the party in charge provides a benefit, temporarily expiring when their term ends, so the next administration is blamed for the cost.

Question: Which political party argues for a balanced budget 100% of the time?

Answer: The party that is in the minority, because if they were in the majority they would actually have to do it!

Point being, with this recent law, regardless of which party was in charge, the same arguments would take place, but on opposite sides. It's silly and divisive. It would help the country if most tax laws were required to be permanent, until changed by another politician, so the honest cost is calculated before enacted.

There is a new criterion added to most tax benefits that you need to have a Social Security number to get the benefit. As far as we can tell, this does not target undocumented people, as they are not filing. This targets foreigners, living here legally, that have International Taxpayer Identification Numbers (ITIN). We run into this often with foreign adoptions and marriages to foreigners that are waiting for their Social Security numbers. If you have a situation applicable to this, consider expediting the Social Security process and putting your tax return on extension until you receive the Social Security card.

Provisions effective for 2025 returns

<u>Increase in the State and Local Tax (SALT) deduction:</u> The $10,000 maximum deduction is temporarily increased to $40,000 through 2029. However, higher earners will not get the extra deduction as it starts to get phased out for taxpayers with Modified Adjusted Gross Income (MAGI) of more than $500,000. After 2029, the deduction is back to $10,000. Also, if filing Married Filing Separate (MFS) all those amounts are half.

> **Pro tip:** With this in mind, some taxpayers may want to lump deductions into every other year. For example, prepay real estate tax and donations. Then itemize in odd years and take the standard in even years.

<u>No tax on tips:</u> Taxpayers are allowed an adjustment to income, without having to itemize, for qualified tips reported as income. The deduction is limited to $25,000 and starts to get phased out with a MAGI of $150,000 for single filers and $300,000 married filers. There is no deduction if you file MFS. We expect additional guidance on who is entitled to this deduction, but you must be in certain industries and the tips must appear on your W-2.

<u>No tax on overtime:</u> With similar rules as tips, taxpayers are allowed an adjustment to income, without having to itemize, for qualified overtime reported as income. The deduction is limited to $12,500 for single filers and $25,000 for married. It starts to get phased out with a MAGI of $150,000 for single filers and $300,000 married filers. There is no deduction if you file MFS. We expect additional guidance on who is entitled to this deduction, but it must appear on your W-2, is only the overtime portion of pay, and only when the overtime is required by federal law, not just an agreement with an employer. This also means employees classified as "exempt" will not qualify. Exempt employees include managers, highly educated or skilled professionals and more.

<u>No tax on Social Security</u>: This is misleading and did not go through due to a conflicting law. However, for taxpayers 65 or over, they may be entitled to a new additional deduction of $6,000 for the taxpayer and/or spouse. But this as well starts to get phased out for single filers with MAGI of $75,000 and married filers at $150,000. There is no deduction if filing separate. This additional deduction is set to expire after 2029 and is not tied to whether you are collecting Social Security or not.

<u>Deduct car loan interest:</u> Taxpayers can claim a deduction for up to $10,000 of interest paid on a qualified passenger vehicle loan. The car needs to qualify as final assembly in the USA, you need to report the VIN as proof, it must be purchased in 2025 or later, and the bank needs to provide a tax statement. This deduction starts to get phased out with MAGI of $100,000 for single filers and $200,000 for married filers.

<u>Third-party transaction reporting:</u> Sell on eBay, StubHub or Poshmark? The new law reverts to the old rules for tax reporting. This means you should not receive a 1099-K unless you collected $20,000 and had 200 transactions in a calendar year.

<u>529 plans keep getting better:</u> Beginning July 4, 2025 you can spend your 529 plan on:

- Tutoring or educational classes outside of the home, but only if the tutor is licensed as a teacher in any state, has taught at an eligible educational institution, or is a subject matter expert in the relevant subject.
- Fees for a nationally standardized norm-referenced achievement test, an advanced placement examination, or any examinations related to college admissions.
- Educational therapy for students with disabilities provided by a licensed provider including occupational, behavioral, physical, and speech-language therapies.

<u>Qualified small business stock</u>: The bill increases the Sec. 1202 exclusion for gain from qualified small business stock for qualified small business stock acquired after July 4, 2025. The exclusion will increase from $10 million to $15 million and the percentage of gain excluded from gross income will be 50% if held three years, 75% if held four years, and 100% if held for five years or more. New Jersey is one of only a few states that were not honoring this income exclusion. Gratefully, beginning in 2026 NJ signed a law honoring it.

<u>Most of the energy credits will expire much sooner!</u>

- EV car vehicle credit will expire September 30, 2025.
- Energy efficient home improvement credit (windows, furnaces, insulation, etc) and the residential clean energy credit for solar and geothermal will expire at the end of 2025. These credits were difficult to qualify for and can be found at https://www.energystar.gov/about/federal-tax-credits
- The alternative fuel vehicle refueling property credit, the new construction energy efficient commercial buildings deduction and the energy efficient home credit (builders' credit) will expire on June 30, 2026.

<u>Trump Accounts</u>: There are many details still forthcoming, but these appear to be traditional IRAs for newborns. While it applies for children born in 2025, accounts will not be available until 2026. The government will seed the account with $1,000 for children born in 2025 or later. You can contribute up to $5,000 per child, there are no income requirements, and employers can contribute $2,500 without taxing the employee. To claim this $1,000 your new child may need to file a tax return for 2025.

> **Pro tip:** Let us help you prioritize additional contributions to these accounts versus 529 plans for kids, 529 plans for yourself, Traditional, Roth, & Backdoor Roths, employer retirement plans, MEGA 401(k)s, or paying down other debt or mortgage.

<u>No more checks</u>! As part of government modernization, the IRS will no longer be accepting checks for estimates or balances due nor will they send checks for refunds. For payments, you can either provide your banking with your tax return, or go to the IRS website and make the payments yourself. For refunds, the only choice is to provide us with your banking information. While this may seem unsettling to many, appreciate that Social Security began this requirement in 2013 and has worked out well.

Provisions effective for 2026 returns

Charitable contribution deduction: The law created a charitable contribution deduction for taxpayers who do not elect to itemize, allowing nonitemizers to claim a deduction of up to $1,000 for single filers or $2,000 for married taxpayers filing jointly for certain charitable contributions.

Charitable contribution loss: For itemizers, the bill imposes a 0.5% floor on the charitable contribution deduction: The amount of an individual's charitable contributions for a tax year is reduced by 0.5% of the taxpayer's adjusted gross income for the year.

> **Pro tip:** Use better methods of making donations. Use Donor Advised Funds to lump multiple years together and avoid capital gains or if you are over 70.5 have donation sent directly from your IRA.

529 plans keep getting even better again: The former $10,000 limitation for elementary and secondary tuition is increased to $20,000.

Gift & Estate Exemption: The lifetime gift or estate exemption is increased to $15,000,000 and made permanent. If married, and your spouse dies, you can file to get their exemption, so married taxpayers effectively can give away, during their lifetime and death an aggregate of $30,000,000 in addition to the annual gift limits.

Employer Dependent Care Plans: Finally! After decades, the $5,000 annual limit will increase to $7,500. Half that amount if filing separate. This far exceeds the credit available when your tax return is filed, so take advantage of this with your employer.

Educators scored a win: Currently educators have a special $300 deduction without even itemizing. Beginning in 2026 the definition of educator and qualified expenses is expanded, and their costs in excess of $300 can be deducted as an itemized deduction.

High earners lose itemized deductions: Taxpayers in the highest tax bracket will lose some of their itemized deductions. The concept is that while they pay tax at 37%, the deductions are limited to 30% savings.

> **Pro tip:** If this applies to you, consider frontloading any deduction in 2025 before this kicks in for 2026.

Form 1099 reporting threshold: The bill increases the information-reporting threshold for certain payments to persons engaged in a trade or business and payments of remuneration for services to $2,000 in a calendar year (from $600), with the threshold amount to be indexed annually for inflation in calendar years after 2026.

Sincerely,
Westfield CPAs, LLC

Special supplement for our New Jersey clients

Senior Freeze, ANCHOR & Stay NJ

With three programs instead of two, the state came up with one combined application for residents age 65 or older or receiving Social Security Disability payments. By filling out one application, the state determines which benefits you are eligible for.

ANCHOR provides a real estate tax rebate based on the income on your 2024 NJ tax return, line 29. With income under $150,000 the benefit is $1,500. With income under $250,000 the benefit is $1,000. If you are over 65, you will get an additional $250. There are also lessor benefits for renters.

Senior Freeze may apply if you were 65 by December 31, 2023 or receiving SSDI. You must have owned the same home since December 31, 2020 and pay normal real estate tax, not PILOT payments. You must meet income limit of $163,050 for 2023 AND $168,268 for 2024. However, your income is calculated differently for this. Start with your NJ total income from line 27, and then add tax free income such as municipal interest, Roth IRA distributions, Social Security benefits, inheritances, and more. Effectively, once you are in this program, you will be refunded any increase in your real estate tax since you qualified – and remain qualified – to participate in the program.

Stay NJ is available to people age 65 by December 31, 2024. You must own and live in your home for the entire 2024 year to qualify. The income limits are very high, $500,000 based on the same formula as income for the Senior Freeze. Stay NJ reimburses applicants up to 50% of their property tax bills, including PILOT payments, up to $6,500 less any ANCHOR and Senior Freeze benefit.

The deadline to file is August 31, 2025 for paper applications and October 31, 2025 if you are able to file online.

Editorial: None of these real estate tax rebates do anything to lower the cost of property tax in NJ. All they do is reallocate who pays how much. The new program, "Stay NJ" seems unrealistic to take place. In the law, for NJ to pay these rebates, the state needs to have a 12% surplus, unless the new Governor overrides it. While their comments are limited, neither of the two leading candidates have committed to this program.

Seems to us that our current Governor invited everyone to his fancy country club for an incredible event, but then he leaves before the bill comes due and we end up washing dishes! That said, you should still apply and hope to get it. While we are not real estate tax experts, we can assist in calculating your income for this benefit.

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Westfield CPAs, LLC