

SUMMER 2025 NEWSLETTER

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We hope you are enjoying a happy and prosperous summer! At Cypress Tax, it's been a busy season filled with extensions, vacations, quarterly estimates, and keeping up with important tax law updates. Notably, new tax legislation was enacted on July 4, 2025. Unlike recent years when changes were passed at the very end of December, this mid-year timing allows us more opportunity to plan ahead. Several provisions take effect immediately for 2025, while others will roll out in 2026 and beyond.

The most publicized change is the increase to the SALT (State and Local Tax) limitation from \$10,000 to \$40,000. While this change may be quite impactful for many taxpayers, there are many others for which there will be no impact. First, in order to benefit from the change, itemizing deductions is required. For those with little or no mortgage interest expense or those in states with little or no tax, the standard deduction may still be higher than itemizing even with the higher SALT limits. Second, the SALT limitation increase is phased out for taxpayers for MAGI (Modified Adjusted Gross Income) between \$500,000 and \$600,000. Keep in mind, the income limits are the same for joint and married taxpayers, so there can be a clear marriage penalty for dual income couples.

Another major impact was the continuation of the ordinary income brackets at 2025 levels with inflation adjustments rather than the return to higher pre-2018 levels that were planned for 2026. Also, the 39.6% tax bracket was eliminated, as well as a reduced impact for alternative minimum tax. Finally, the lifetime estate and gift tax exclusion, which was scheduled to drop to roughly \$7 million per taxpayer in 2026, is now increased to \$15 million for 2026 and is indexed for inflation going forward.

2025 Tax Law Changes

Increase to Itemized State and Local Tax (SALT) Deduction

- The maximum SALT deduction is increased from \$10,000 to \$40,000 through 2029 but is phased out back to the \$10,000 amount for higher levels of modified adjusted gross income (MAGI)

Tax Year	Maximum SALT deduction per tax return	Phase out Range for all filing status except MFS
2025	\$40,000	\$500,000-600,000 MAGI
2026	\$40,400	\$505,000-605,000 MAGI
2027	\$40,804	\$510,050-610,050 MAGI
2028	\$41,212	\$515,151-615,151 MAGI
2029	\$41,624	\$520,320-620,320 MAGI
2030 and beyond	\$10,000	Limitation does not apply

- MAGI includes amounts otherwise excluded due to the Foreign Earned Income exclusion
- The SALT deduction is reduced by 30% of the amount that MAGI exceeds the bottom end of the phase-out range

Planning: Timing of year-end real estate tax or 4th quarter state income tax estimates may save taxes for itemizers below the phase-out levels. Qualified charitable distributions (QCD's) from IRAs up to \$108,000 per taxpayer for 2025 for those 70½ and older to reduce RMDs can reduce MAGI to avoid the phase-out while also potentially saving Medicare premiums by reducing IRMAA adjustments.

Increase to Standard Deduction

- Single and Married filing Separate: \$15,750 (up from \$15,000)
- Married filing Joint: \$31,500 (up from \$30,000)
- Head of Household: \$23,625 (up from \$22,500)
- Additional standard deduction for those 65 and older of \$2,000 Single or \$1,600 each if Married

Planning: Higher standard deductions further reduce opportunities to itemize to save taxes. Consideration should still be given to bunching deductions or timing charitable contributions in years when itemizing saves taxes.

Senior Deduction – effective for tax years 2025 – 2028 only

- New deduction for those 65 and older of \$6,000 per taxpayer
- This deduction does not reduce AGI but does reduce taxable income and phases out from \$75,000-\$175,000 MAGI (Single) and \$150,000-\$250,000 MAGI (Joint)
- The Senior deduction is not allowed on a Married-filing-separate tax return
- Taxpayers do not need to be receiving Social Security Benefits to be eligible for this deduction
- Total Standard and Senior deductions for a joint return with both over 65 and below the phase out level is up to \$46,700 for 2025

Planning: This deduction is available to both itemizers and non-itemizers. Consider Qualified Charitable Distributions from IRAs to reduce RMDs to get below the phase-out. Higher deductions may increase opportunities for Roth conversions at lower brackets.

Trump Tax Deferred Savings Accounts for Children under 18

- A new “Trump” account can now be established for all children under 18.
- US Citizens born in tax years 2025-2029 will receive \$1,000 from the US Treasury to the account
- Each account can receive up to \$5,000 per year (adjusted for inflation) of total contributions
- Parents can make up to \$5,000 of non-deductible contributions per year
- Employers can contribute up to \$2,500 per year as a tax-free benefit to employees
- Investment earnings grow tax deferred and investments are limited to mutual funds and indexed ETFs
- Distributions are allowed beginning in the year the beneficiary turns 18

- All distributions are taxable at ordinary rates with an adjustment for non-deductible contributions by parents
- Contributions are permitted starting July 4, 2026

Planning: Because of the non-deductible treatment of contributions and tax-deferred growth, these accounts work very much like non-deductible IRAs for children. There is no major tax benefit to be gained by establishing the account other than the \$1,000 contributed for newborns.

Increased Child Tax Credit

- Permanent increase to \$2,200 per child (up from \$2,000) under 17 starting in 2025 and will be adjusted for inflation yearly. Children and other dependents 17 and over will remain at \$500.
- Phase-outs continue to start at MAGI of \$200,000 Single and \$400,000 Joint

Qualified Small Business Stock (QSBS)

- Enhancement to the QSBS gain exclusion for certain C Corp stock acquired after July 4, 2025
- New tiered structure excludes 50% of the taxable gain after 3 years of ownership, 75% of the gain after 4 years of ownership, and 100% of the gain after 5 years of ownership
- Gain Exclusion is increased to \$15 million for stock acquired after July 4, 2025, but remains at \$10 million for stock acquired any date earlier
- C Corp must have had gross assets less than \$50 million at the time of stock issuance, but is increased to \$75 million in tax year 2027 for stock acquired after July 4, 2025

Planning: This gain exclusion is only available to C Corps not in the businesses of health, law, engineering, architecture, performing arts, consulting, athletics and financial services.

Car Loan Interest Deduction – effective for tax years 2025 – 2028 only

- Added deduction decreases taxable income (not AGI) of up to \$10,000 per taxpayer
- Cars must have final assembly within the US
- Loan must have been established after December 31, 2024 to qualify
- Deduction phases out above \$100,000 MAGI (Single), \$200,000 (Joint)

Planning: This deduction is available to both itemizers and non-itemizers.

Tips Deduction – effective for tax years 2025 – 2028 only

- This is a new deduction allowed for certain taxpayers that receive tips of up to \$25,000 per year. Restaurant, hotel, and beauty services employees could all be eligible
- Tips must be reported and labeled as “tips” on either Forms W2, 1099-NEC, 1099-K, or 4137 to be “qualified tips” for purposes of this deduction
- This deduction begins to phase out at \$150,000 MAGI (Single), \$300,000 (Joint)
- Required service fees are not includible as tips

- The Tips deduction is not allowed on a Married-filing-separate tax return
- Business owners filing Schedule C are limited to a “Tips” deduction of the lesser of their Net Income, total tips received, or \$25,000

Planning: Request employers to track and separately identify tips to get the deduction.

Overtime Deduction – effective for tax years 2025 – 2028 only

- New deduction for qualified overtime compensation for eligible employees of up to \$12,500
- Qualified Overtime is considered the “half” portion of the “time and a half” overtime payment and is only allowed if reported on Form W2
- This deduction begins to phase out at \$150,000 MAGI (Single), \$300,000 (Joint)
- The Overtime deduction is not allowed on a Married-filing-separate tax return

Planning: Request employers to track and separately identify overtime to get the deduction.

529 Education Savings Plan Changes

- Starting with distributions taken after July 4, 2025, education expenses in addition to tuition for elementary and secondary education are eligible for tax free 529 distributions
- Limits remain at \$10,000 per child for elementary and secondary education for tax year 2025, but will increase in 2026 and beyond

Planning: Consider increasing contributions to Section 529 accounts to pay elementary and secondary education costs beginning in 2026. State deductions may also be available.

Energy Credit Terminations

- The Clean Vehicle (EV) Credit is terminated after September 30, 2025. To qualify, your vehicle must be purchased and “in use” by September 30th, 2025. Vehicle cost and income limitations remain in effect as previously set
- The Energy Efficient Home Improvement Credit and Residential Clean Energy (Solar) Credits are terminated after 2025. To qualify, property must be in service by December 31, 2025

Planning: Plans should be made to complete solar projects by 12/31/25 to qualify for the 30% credit.

2026 Tax Law Changes

- Permanent increase to the **standard deduction**. The standard deduction was set to be cut in half in 2026. It will now continue to be adjusted for inflation yearly up from current amounts
- Allowance of **charitable deduction for non-itemizers** of up to \$1,000 per taxpayer
- Addition of a **0.5% AGI floor on charitable contributions for itemizers**. For example, a taxpayer with an AGI of \$300,000 would not be able to deduct the first \$1,500 of charitable deductions
- The increased **60% AGI limitation** on cash charitable contributions is made permanent
- Elimination of the “Pease” limitation (income-based phase out of itemized deductions) that was set to return in tax year 2026
- New maximum tax benefit of 35% for itemized deductions for those in the 37% bracket
- Elimination of **personal exemptions**. Personal exemptions were set to come back in 2026 and are now eliminated
- Continuation of the **Qualified Business Income Deduction (QBI)**. The QBI deduction was set to expire at the end of 2025. It now is expanded for tax years 2026 and beyond and remains intact at current rates for 2025
- Permanent increase to the **lifetime estate and gift exclusion** to \$15 million per taxpayer in 2026 with annual inflation adjustments
- **Personal Casualty Losses** are permanently limited to those related to Federally declared disasters. This provision was set to expire at the end of 2025 but now is permanent
- Increase to the **Dependent Care Assistance Exclusion** for employees of up to \$7,500 per tax return from the \$5,000 amount allowed in 2025

Planning: This is particularly important for those with only one qualifying child as the benefit from pre-tax deductions can be up to \$2,775 while the maximum benefit from the alternative dependent care credit is only \$600.

- The \$300 **Educator’s Deduction** is expanded to apply to interscholastic sports administrators and coaches. This deduction previously was only for teachers, counselors, principals, or aides
- **Gambling Losses** are limited to 90% (down from 100%) deductible against gambling income unless significant, and continue to be allowed only as an itemized deduction
- **529 Plan limits** for elementary and secondary school are increased from \$10,000 to \$20,000
- 1099-NEC or 1099-MISC threshold for reporting moves to \$2,000 (up from \$600) and is inflation adjusted for future years
- **HSA contributions** will continue to be allowed for taxpayers with high deductible plans but will now also include all bronze level plans on the Health Care Marketplace
- New Federal tax credit for taxpayers making **qualified contributions to scholarship-granting organizations** of up to \$1,700 per taxpayer, eligible for tax years starting in 2027 or later. This program is administered by the states and any credit reduces the itemized charitable deduction by the same amount

- **Qualified Opportunity Zone** provisions are made permanent effective tax year 2027 and starting July 1, 2026, new QOZs will be eligible for designation once every 10 years
- **Bonus Depreciation** for 2025 is increased to 100% (up from 40%) and is made permanent on all eligible property acquired and placed in service after January 19, 2025

Planning: Businesses with net taxable income can already immediately expense new assets using Section 179 so this change is not a major tax savings for most businesses

These sweeping changes introduced by the new tax bill present both opportunities and challenges for individuals, families, and businesses. With significant updates to deductions, credits, savings vehicles, and compliance requirements, it is more important than ever to understand how these provisions may impact your unique situation.

We encourage you to reach out to our team for personalized guidance and strategic planning tailored to your needs. Please feel free to contact us for a comprehensive review or with any questions about how the new law may affect you. Best wishes for a prosperous end to 2025!