

## **2025 Income Tax Update**

**© Brian J. Parker, CPA**

The 2017 Tax Cuts and Jobs Act (TCJA) was signed into law on December 22, 2017. This tax act made sweeping changes to the U.S. tax code and impacts virtually every taxpayer and family. The TCJA made major changes in the tax law that affected 2018 and future tax returns. The TCJA will remain in effect through 2025, when it then reverts back to prior tax law. With the new Administration coming into power, we will see what changes happen in 2026.

### **Big Income Tax Items for 2025**

Since tax news is relished by those who enjoy doing tax work for a living, and less interesting to most of the rest of you, here we'll stick to the highlights.

#### **Health Insurance**

The mandatory requirement to have health insurance, under "Obamacare", has been eliminated for years 2019 and after. However, all other provisions of the original law remain in effect, including tax credits to offset insurance premiums for lower income taxpayers and families who purchase through the Health Insurance Marketplace. The availability of the Premium Tax Credit has been expanded to more taxpayers.

#### **Standard Deduction**

The standard deduction can be used in lieu of itemizing deductions. For married and single taxpayers, the inflation adjusted standard deduction for 2025 increases to \$30,000 and \$15,000, respectively. This will be important for many taxpayers, since the TCJA eliminated, or severely limited, many itemized deductions previously allowed, as well as eliminating all personal exemptions.  
(See Itemized and Other Deductions in the next section)

#### **Itemized and Other Deductions**

Under the 2017 Tax Cuts and Jobs Act (TCJA), for years through 2025, the itemized deductions phaseout is eliminated, standard deductions are increased (as shown above), but all 2% miscellaneous itemized deductions and personal exemptions are no longer allowed as income tax deductions. In addition, Congress severely limited deductions for state and local income, property and sales taxes to a maximum of \$10,000, limited mortgage interest expense for the purchase of new primary and secondary residential property and eliminated the interest expense deduction for home equity loans, whether already in existence, or newly obtained, if used to pay for personal purposes. However, if home equity loans were used for primary home acquisition, or for making home improvements, the limited mortgage interest expense deduction will still be allowed. Casualty losses will now only be allowed if they occurred in a federally declared disaster area. For divorce

agreements entered into in 2019 and after, alimony or separate maintenance will no longer be deductible by the paying spouse and will not be considered income to the receiving spouse.

2Please note that New York State has decoupled itself from the various itemized deductions limitations under the TCJA. Therefore, New York State will still allow all itemized deductions using the tax law in effect prior to the TCJA, including the full deduction for real estate taxes, home equity mortgage interest up to a \$100,000 mortgage limit, miscellaneous itemized deductions and several other deductions.

### **20% Qualified Business Income Deduction**

3There is a Federal 20% Qualified Business Income Deduction available, which directly reduces taxable income. This deduction applies to taxpayer business and other pass-through income. There are limitations on this deduction, based on the type of business, taxable income, wages paid to employees and several other provisions.

### **Tax Brackets**

The TCJA inflation adjustment increased the 2025 tax brackets that individuals and families use to calculate their income tax. The maximum income tax rate for the highest bracket is 37.0%. This rate affects couples with taxable incomes over \$751,600 and single filers with taxable incomes over \$626,350. The U.S. has a graduated tax system which means that the incremental portion of your taxable income, which falls in the bracket, is taxed at the rate beside it for 2025.

(See following tax rate chart)

TAX RATE 2025	MARRIED FILING JOINTLY	SINGLE FILERS
10%	\$0-\$23,850	\$0-\$11,925
12%	\$23,851-\$96,950	\$11,926-\$48,475
22%	\$96,951-\$206,700	\$48,476-\$103,350
24%	\$206,701-\$394,600	\$103,351-\$197,300
32%	\$394,601-\$501,050	\$197,301-\$250,525
35%	\$501,051-\$751,600	\$250,526-\$626,350
37%	Above \$751,600	Above \$626,350

### **Alternative Minimum Tax (AMT)**

For those taxpayers subject to the Alternative Minimum Tax (AMT), the TCJA inflation adjustment increased the 2025 AMT exemptions for married and single taxpayers to \$137,000 and \$88,100, respectively. It also increased the AMT

exemption phaseout amounts to \$1,252,700 for married and \$626,350 for singles, respectively.

### **Child Tax Credits**

The 2025 Child Tax Credits are a maximum of \$2,000 per child under 17 years old. The income phaseout limits for married and single taxpayers are \$400,000 and \$200,000, respectively. Also, a non-refundable \$500 credit is available for qualifying dependents other than qualifying children. In addition, dependent care expenses (limited to \$3,000 for 1 child, \$6,000 for 2 or more children) can be used for a graduated tax credit based on income levels.

### **Estate and Gift Tax**

The Federal and New York State estate tax exemptions have increased to \$13,990,000 and \$7,160,000, respectively, for decedents dying in 2025 and will also be inflation-adjusted for future years. The annual gift tax exclusion increases to \$19,000 for 2025.

### **Capital Gains Rates**

The capital gains tax rates of 0% and 15% remain the same for 2025, as well as the 20% rate for those subject to the highest capital gains tax bracket. This 20% capital gains rate applies for both regular and AMT tax purposes. The different rates that apply to collectibles (28%) and depreciated real estate (25%) also remain the same. (See following tax rate chart)

CAPITAL GAINS RATE 2025	MARRIED FILING JOINTLY	SINGLE FILERS
0%	Up to \$96,700	Up to \$48,350
15%	\$96,701-\$600,050	\$48,351-\$533,400
20%	Above \$600,050	Above \$533,400

NOTE: Because there is now a 3.8% Medicare tax on net investment income, the top capital gains tax rate will really be 23.8% (and not 20%) for many top earners.

Please feel free to contact the firm of Brian J. Parker, CPA if you have any questions or concerns about your taxes, accounting, retirement savings, estate planning or business planning.

We can be reached at (914) 941-6400, or e-mail to [brian@bparkercpa.com](mailto:brian@bparkercpa.com).