

THE TAX FILE

KAGAN and ASSOCIATES, LTD. Certified Public Accountants

1520 Artains Parkway
#6980
Libertyville, IL 60048
Phone: 847-392-3300
Fax: 847-392-3875
info@KaganLtd.com

1 Updates for 2025

Here's an overview of key 2025 adjustments published by IRS and other changes for this year.

2 Tax Tidbits

Bits of information you may find interesting.

IRS 2025 Changes and Adjustments

Here's some information on items that have been updated for tax year 2025, either by required inflation adjustments, due to changes in tax laws or as the result of new tax laws.

Payroll Changes

The Social Security wage base (wages that are taxed for Social Security each year) increased to \$176,100 for 2025, up from \$168,600 for 2024. The Social Security tax rate remains at 6.20% each for the employer and employee.

There are no changes in the Medicare tax wage base (unlimited) or tax rate of 1.45% each for the employer and employee. Additional Medicare tax of 0.90% must be withheld on all wages over \$200,000 paid during 2025.

The federal unemployment tax wage base (\$7,000) remains the same, as does the rate of 6.0% for the 2025 tax year (before the potential state credit

Winter 2025

of 5.4% is applied, leaving a net rate of 0.60%). California, New York and the Virgin Islands are credit reduction states for tax year 2024.

In Illinois, the taxable wage base for state unemployment is \$13,916 for 2025, up from \$13,590 last year. Tax rates for IL unemployment range from 0.75% to 7.65% (including the fund builder surcharge), depending on your business's experience rating.

Standard Deduction Increases

The standard deduction for married couples filing jointly for tax year 2025 has increased \$800 to \$30,000. For married taxpayers filing separately and single taxpayers, the increase is \$400 to \$15,000.

For taxpayers filing under the head of household status, the 2025 standard deduction will be \$22,500, up \$600 from 2024.

Marginal Tax Rates

For tax year 2025, the top tax rate remains at 37% and applies for single taxpayers with incomes greater than \$626,350 (\$609,350 in 2024). The 37% rate starts at \$751,601 for married couples filing jointly (\$731,201 in 2024).

All other tax brackets reflect similar increases for 2025. The lowest tax rate is 10% for incomes \$11,925 or less for single taxpayers and \$23,850 or less for married couples filing jointly.

The individual income tax brackets are indexed for inflation. This provision of the law was enacted in 1981 after a period of high inflation to ensure that taxpayers are not pushed up into higher tax brackets by inflation.

Capital Gains Tax Rates

For tax years beginning in 2025, the income brackets for tax on long-term capital gains and qualified stock dividends have increased.

For married taxpayers filing joint tax returns, no capital gains tax is due until their taxable income exceeds \$96,700 (an increase of \$2,650 from 2024). Tax of 15% will apply to their

long-term capital gains until their taxable income exceeds \$600,050 (an increase of \$16,300 from 2024). Above \$600,050 a tax rate of 20% will apply. All other filing statuses reflect similar increases for 2025.

Gift and Estate Exclusions

For 2025 the annual exclusion for gifting will be \$19,000, up from \$18,000 in 2024. You can give gifts of up to \$19,000 to as many people as you choose in 2025 without any reduction to your lifetime exemption or any gift tax consequence.

In addition to annual \$19,000 gifts, you can pay unlimited amounts for anyone's tuition or medical expenses, without affecting your lifetime exemption, as long as you pay the school or medical provider directly.

The lifetime exemption for gift and estate taxes for 2025 will be \$13.99 million, up from \$13.61 million in 2024. Under the 2017 Tax Cuts and Jobs Act, the lifetime exemption will be reduced by more than half after 2025, barring any action from Congress.

Retirement Plan Contributions

IRS also announced changes to retirement plan contributions. Payroll deferrals of \$23,500 will be allowed for 401(k) plans in 2025, an increase of \$500. This increase also applies to 403(b) and most 457 plans.

Catch-up contributions for taxpayers aged 50 and over for these plans will remain at \$7,500 in 2025. This means the maximum deferral for taxpayers aged 50 and over will be \$31,000 for the year.

Under a change made by Secure Act 2.0, a higher catch-up contribution limit applies for plan participants aged 60, 61, 62 and 63. For 2025 this higher catch-up contribution limit is \$11,250 instead of \$7,500.

The limit for annual contributions to IRA accounts remains at \$7,000 in 2025. Annual catch-up contributions for taxpayers aged 50 and over remains at \$1,000 for the year.

Income ranges for determining eligibility to make deductible IRA

contributions and contributions to ROTH IRAs have also increased for 2025.

HSA Inflation Adjustments

For 2025, the annual limit on contributions to an HSA for an individual with self-only coverage is \$4,300, up \$150 from 2024. For an individual with family coverage, the maximum contribution for 2025 will be \$8,550, up \$250 from 2024 limits.

Individuals aged 55 and older will be entitled to make additional catch-up contributions to their HSA accounts of up to \$1,000 in 2025. This is the same amount as allowed in 2024.

Other Provisions Impacted

Other provisions that have been adjusted include the Earned Income Tax Credit, the Alternative Minimum Tax exemption and phase-out ranges, the monthly limitation for qualified transportation benefits, provisions relating to medical savings accounts, and more. For more details on these provisions, please contact our office.



Standard Mileage Rate

In December 2024, the IRS announced an increase in the standard mileage rates effective on January 1, 2025.

The standard mileage rate for business travel is 70 cents per mile, up 3 cents from the rate effective for 2024. The rate for deductible medical miles and moving mileage (available only for active-duty members of the military) is 21 cents per mile, with no changes for these rates from 2024.

The mileage rate for charitable organizations remains unchanged at 14 cents per mile. This rate is set by statute.

It's important to note that under the Tax Cuts and Jobs Act, taxpayers

cannot claim a miscellaneous itemized deduction for unreimbursed mileage expenses they incur as an employee.

Tax Tidbits

The IRS is warning taxpayers to be aware of potential tax scams. IRS impersonators are using various tactics to scam taxpayers.

Signs of a scam might include the promise of a "big payday". Impersonators may threaten that you have to "pay now, or else". They may threaten arrest or worse. They may demand immediate payments by gift card. FYI IRS (the U.S. Treasury) does not accept payments by gift card.

Watch for odd or misspelled web links on emails received. The IRS website is www.irs.gov. Be informed - the IRS typically contacts taxpayers initially through regular U.S. mail.

Also be aware that since scam artists may show up at your door claiming to be IRS agents, IRS has ended most unannounced visits to taxpayers by revenue officers. Instead, revenue officers will contact taxpayers through an appointment letter (725-B Letter) and schedule a follow-up meeting.

Scanners are also contacting taxpayers electronically using email and text messages. The IRS never initiates contact regarding a bill or tax refund by email, text or social media.

If you think you've been scammed, you can report it to IRS. Go to www.irs.gov and search for "report a tax scam". You'll find information on how to report an IRS impersonator, a stolen Social Security Number, report a tax scam and much more.

For More Info

The articles in this newsletter are intended to present general tax information. Accounting rules and tax laws are complex. Not all ideas presented may be appropriate for your specific circumstances. For additional information, call Kagan & Associates, Ltd. at 847-392-3300 or e-mail us at info@KaganLtd.com.