Moy Cheung & Company

# Taxes With Serina: One Big Beautiful Bill Act (OBBBA):

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## Brought to you by:

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| Filing Status Requirements | 2025 | 2024 |
|---|---|---|
| **Single** | $15,750 | $14,600 |
| **Singles Age 65 or Older** | $17,750 | $16,550 |
| **Married filing jointly** | $31,500 | $29,200 |
| **Married filing jointly. One spouse age 65 or older** | $33,100 | $30,750 |
| **Married filing jointly. Both spouses age 65 or older** | $34,700 | $32,300 |
| **Married filing separately** | $5 | $5 |
| **Head of Household** | $23,625 | $21,900 |
| **Head of Household. Age 65 or older.** | $25,625 | $23,850 |
| **Qualifying Surviving Spouse.** | $31,500 | $29,200 |
| **Qualifying Surviving Spouse. Age 65 or older.** | $33,100 | $30,750 |
| **All self-employed individuals** | $400 | $400 |

# OBBBA: Income Tax Deduction on Tips

- Employees (and some self-employed folks) can take a federal income tax deduction for qualified tips they received.
  - Only applicable to voluntary tips actually received by the employee.
  - Does not apply to automatic/mandatory service charges.
- The deduction can reduce your federal taxable income by up to $25,000 per year (for tax years 2025-2028), regardless of filing status.
- The deduction phases out for higher earners over $150K(MAGI)/$300K(MFJ)
- Non-itemizers and itemizers can claim
- Claim on schedule 1-A
- Does not impact EITC calculations
- Must have a SSN authorized for work to deduct tips
- Treasury Tipped Occupation List (TTOC):
  - Waiters, bartender, barber, caretaker, tutor, tour guide, casino table staff, bell person, concierge

# OBBBA: Qualifying Tips

- Qualifying tips received from customers that are paid in cash, cash equivalent or charged tips must be paid voluntarily
- **Service charges, automatic gratuities, and other mandatory charge amounts** that are automatically added to a customers bill **do not qualify for the tax deduction** even if the amounts are distributed to employees later.

# Tip Deduction: Claim Points

Partners in a partnership cannot claim the qualified tips deduction because they will not receive a Form W-2 or a Form 1099 for that activity.

A non-employee who receives tips in a method not subject to Form 1099 reporting (e.g.,Zella, Venmo, physical cash) cannot use those tips for deduction. There is no self-reporting mechanism like Form 4137 for non-employees.

# Tip Deduction: Pain Points

Mandatory service charges are not qualified tips unless the customer is given an express opportunity to modify or remove the service charge.

A non-employee who is not furnished a Form 1099-K due to being below the reporting threshold cannot deduct tips received through that platform. They may be able to request the provider furnish one if not required to do so.

A married filing separately taxpayer cannot claim the deduction unless they are considered unmarried under §7703(b).

# Tips Deduction: 2025 Planning Opportunities

If the taxpayer's deduction is reduced because they are over the MAGI limits, there are limited options to retroactively reduce the 2025 MAGI:

- Maximum health saving account deduction until April 15, 2026
- Maximum traditional IRA deduction until April 15, 2026,
- Increase self-employed retirement contributions by October 15, 2026 (if an extension is filed), or
- Maximize asset expensing using bonus depreciation and/or §179 (however, if the net business income limits the deduction, it may make sense to reduce expensing to increase the tips deduction).

# Tips Deduction: 2026 Planning Opportunities

If the taxpayer's MAGI will limit or eliminate the tips deduction, consider strategies to reduce the 2026 MAGI

A non-employee primarily collecting tips in cash or via Zelle (or a similar platform) may consider using a Form 1099-K issuing platform to make those tips eligible for the deduction

Businesses with mandatory service charges should modify their practices to allow customers to modify or disregard the service charge or lower the service charge amount and encourage additional tips beyond the service charge (which would be qualified tips).

# OBBBA: Federal Tax Deduction on Qualified Overtime Pay

- Eligible taxpayers can take a federal tax deduction for qualified overtime pay of up to $12,500 (S/HOH/QSS) or $25,000 (MFJ) for (2025-2028)
- The deduction is only for the overtime pay that is separately reported on the taxpayers W-2 or 1099. (Not the taxpayers regular rate of pay or other compensation)
    - Such as the “half” portion of “time-and-a-half” compensation
    - Can be determined from paystub records
    - Deduction limit to 50% base hourly rate paid out on OT

# OBBBA Act 2025 and Prior: Overtime Deduction

The amount allowed as a deduction (after application of the $12,500 or $25,000 limit) is reduced, but not below $0, by $100 for each $1,000 that the taxpayer's modified adjusted gross income (MAGI) exceeds $150,000 ($300,000 on a joint return)

Fractional amounts do not reduce the deduction

MAGI is AGI plus amounts excluded under §911, §931, or §933

# OBBBA: Rules for Qualified Overtime Pay Deductions

- To claim the deduction Social Security Number must be valid for employment.
  - Allows deduction of premium portion of hourly wage
- If married, taxpayers must file jointly to claim the deduction.
  - Not available to taxpayers filing as Married Filing Separately
- Available to both itemizers and non-itemizers
- The deduction phases out for taxpayers with modified adjusted gross income (MAGI) above $150k ($300k for joint filers)
  - Reduced by $100 for each $1000 the taxpayers MAGI exceeds the threshold amount
- Claimed on Schedule 1-A
- Does not impact EITC calculation

# Overtime Deduction: Pain Points

Millions of taxpayers receive overtime compensation that is ineligible for the deduction:

- The Railway Labor Act and other federal laws exempt specific industries or employees from the FLSA, and overtime is paid based on negotiated contracts or other provisions. Overtime paid under these rules is not eligible for the deduction.
- California and other states require overtime beyond the FLSA amounts; those overtime amounts are not eligible for the deduction.
- Voluntary overtime paid in excess of the FLSA-required time-and-a-half, such as double time, is not eligible for the deduction.

# Overtime Deduction: Pain Points

Tax professionals should obtain the last pay statement for each employee to facilitate the determination of the qualified overtime compensation amount if it is not disclosed in box 14 of the Form W-2.

If a taxpayer has a mix of eligible and ineligible overtime amounts, and the final pay statement does not separate those amounts, the tax professional may need to use a reasonable estimate to allocate the overtime.

# Overtime Deduction: Pain Points

If the box 14 amount is inconsistent with the total overtime amount (e.g., the box 14 amount is 100% of the total overtime reported on the last pay statement), due diligence requires practitioners to investigate inconsistent documents and ask questions to determine the correct qualified overtime compensation amount.

A married filing separately taxpayer cannot claim the deduction unless they are considered unmarried under §7703(b).

# Overtime Deduction: 2026 Planning Opportunities

If the taxpayer's MAGI will limit or eliminate the overtime deduction, consider strategies to reduce the 2026 MAGI.

If the taxpayer's deduction is reduced because they are over the MAGI limits, there are limited options to retroactively reduce the 2025 MAGI:

- Maximum traditional IRA deduction until April 15, 2026
- Maximum health savings account deduction until April 15, 2026
- Increase self-employed retirement contributions by October 15, 2026 (if an extension is filed), or
- Maximize asset expensing using bonus depreciation and/or §179

# OBBBA: Car Loan Interest Deductions

- Individuals may deduct interest paid on a loan used to purchase a **qualified vehicle** for personal use that meets other eligibility criteria.
  - Lease payments do not qualify.
- Maximum annual deductions $10,000 per return
- Phases out for taxpayers with modified adjusted gross income (MAGI) over $100,000 ($200,000 for joint filers MFJ)
- Bicycle qualify/include motorcycles
  - Vehicle must have at least two wheels

# OBBBA Car Loans Deductions: Qualified Vehicle?

A qualified vehicle must be newly purchased in 2025(car, minivan, van, SUV, pickup truck or motorcycle); a refinance loan qualifies to the extent of the original loan if the original loan also met the deduction requirement. That:

- Has a gross vehicle weight rating of less than 14,000 pounds
- Underwent final assembly in the United States.
    a. Check the vehicle label at the dealership
    b. Check the vehicle identification number (VIN)
    c. Check the National Highway Traffic Safety Administration
        i. https://vpic.nhtsa.dot.gov/decoder/
- Non-itemizers and itemizers can claim
- Claimed on schedule 1-A

# OBBBA Car Loans Deductions: Qualified Interest?

Interest must be paid on a loan that:

- Originated in 2025
- Was used to purchase a vehicle originally used by the taxpayer
- Was secured by a lien on the vehicle
- Was for a personal-use (nonbusiness) vehicle

The vehicle must be a new car, the taxpayer is the first person who takes delivery of the vehicle after it is sold, registered or titled. If a qualifying vehicle loan is later refinanced, interest paid on the refinanced amount is generally eligible for the deduction.

# Car Loan Interest Deduction:

For tax year 2025, there is no Form 1098 reporting, so tax professionals will have to affirmatively ask taxpayers if they purchased a car during tax year 2025 with a loan.

Tax professionals and taxpayers should ideally document the taxpayer's intent to use the car primarily for personal use at the time of the car's purchase with a loan.

Due to the steep MAGI phase-out, a taxpayer with $10,000 or more of eligible interest will fully lose their deduction at $150,000 ($250,000 joint).

# Car Loan Interest Deduction: 2025 Planning Opportunities

If the taxpayer's deduction is reduced because they are over the MAGI limits, there are limited options to retroactively reduce the 2025 MAGI:

- Maximum traditional IRA deduction until April 15, 2026,
- Maximum health savings account deduction until April 15, 2026
- Increase self-employed retirement contributions by October 15, 2026 (if an extension is filed), or
- Maximize asset expensing using bonus depreciation and/or §179

# Car Loan Interest Deduction: 2025 Planning Opportunities

A taxpayer who has business use of a vehicle loan qualifying for this deduction can allocate the loan in the taxpayer's best interest at the time of tax return preparation, keeping the following in mind:

- Business interest reduces AGI (leading to other benefits possibly) and self-employment tax on Schedule C, but reduces qualified business income (QBI) for §199A deduction purposes.
- The interest allocated to the business cannot exceed the business-use percentage applied to the total loan interest paid.
- Testing different allocations during the return preparation process can ensure the optimal one is chosen.

# Car Loan Interest Deduction: 2026 Planning Opportunities

If the taxpayer's MAGI will limit or eliminate the car loan interest deduction, consider strategies to reduce the 2026 MAGI.

If a taxpayer has mixed business and personal use of the vehicle, test different allocations during the return preparation process to optimize the allocation, as discussed previously

Advise taxpayers who want to buy a new car in 2026 and forward to verify that the vehicles final assembly was in the United States prior to purchase.

# SALT Deduction: Key Reminders

The $40,000 deduction cap is reduced to $20,000 for married filing separately, but is not increased for married filing jointly.

The $500,000 MAGI phase-out starting point is reduced to $250,000 for married filing separately, but is not increased for married filing jointly

The SALT deduction cap will never decrease below $10,000

# SALT Deduction: Key Reminders

The $40,000 deduction cap and $500,000 MAGI threshold increase 1% per year; the 2026 amounts are $40,400 and $505,000, respectively

There were no changes to the deductibility of pass=through elective entity taxes (PTET) pursuant to Notice 2020-75.

Foreign income taxes are not subject to the deduction cap.

# SALT Deduction: Pain Points

Since the MAGI phase-out occurs at high federal marginal rates, any increase in income once a taxpayer reached $500,000 MAGI results in a large increase in tax on the margin. This can be amplified if there are other AGI-sensitive or taxable-income sensitive items on the return (e.g. §199A deduction, charitable contribution deduction, etc.)

# SALT Deduction: 2025 Planning Opportunities

If the taxpayer's deduction is reduced because they are over the MAGI limits, there are limited options to retroactively reduce the 2025 MAGI:

- Maximum traditional IRA deduction until April 15, 2026
- Maximum health savings account deduction until April 15, 2026,
- Increase self-employed retirement contributions by October 15, 2026 (if an extension is filed), or
- Maximize asset expensing using bonus depreciation and/or §179

# SALT Deduction: 2026 Planning Opportunities

If the taxpayer's MAGI will limit or eliminate the SALT deduction, consider strategies to reduce the 2026 MAGI. Small changes in MAGI can lead to relatively large changes in tax.

If a taxpayer can fully deduct SALT amounts on Schedule A, it may not decrease tax to elect into a state-level PTET, since PTET will reduce QBU for §199A purposes. Good tax planning projections are needed to make this determination.

# OBBB: Senior Deduction

- Up to $6000 per taxpayer
- Allowed for tax years 2025-2028
- Non-itemizers and itemizers can claim
- Phases out begin for earners above $75,000 MAGI ($150,000 if MFJ)
- Must have a SSN authorized for work to claim
- Claimed on schedule 1-A
- To qualify for the additional deduction, a taxpayer must attain age 65 on or before the last day of the taxable year.
- Taxpayers do not need to receive social security benefits to claim the senior deduction
- SS Tax at 85%

# Senior Deduction: Pain Points

Due to the “no tax on Social Security” messaging, seniors may have had withholding reduced or eliminated from their Social Security benefits.

If both taxpayers on a joint return are age 65 or older, the $6000 amount phased out simultaneously; the deduction is $0 at MAGI or $250,000

A married filing separately taxpayer cannot claim the deduction unless they are considered unmarried under §7703(b).

# Senior Deduction: 2025 Planning Opportunities

If the taxpayer's deduction is reduced because they are over the MAGI limits, there are limited options to retroactively reduce the 2025 MAGI:

- Maximum traditional IRA deduction until April 15, 2026,
- Increase self-employed retirement contributions by October 15, 2026 (if an extension is filed),
- Deduct Medicare premiums as an adjustment to income, if possible (e.g., the self-employed health insurance deduction), or
- Maximize asset expensing using bonus depreciation and/or §179

# Senior Deduction: 2026 Planning Opportunities

If the taxpayer's MAGI will limit or eliminate the senior deduction, consider strategies to reduce the 2026 MAGI. Taxpayers greater than age 70.5 should consider tax-free qualified charitable distributions (QCDs) to meet their charitable goals and/or required minimum distribution (RMD) requirements.

The taxpayer's AGI in tax year 2026 will affect their Medicare IRMAA surcharges in tax year 2028. While the 2028 IRMAA thresholds are not known, they will most likely overlap with the upper end of the senior deduction phase-out range.

# Charitable Contribution Deduction: Key Reminders

Starting in tax year 2026, there is a deduction for cash contributions for non-itemizers or up to $1000 ($2,000 married filing jointly).

Starting in tax year 2026, there is a 0.5% of AGI floor on the itemized charitable contribution deduction.

Starting in tax year 2026, there is a 1% taxable income floor on deductible charitable contributions for a C corporation, in addition to the 10% taxable income limit.

# Charitable Contribution Deduction: Key Reminders

Starting in 2026, a new itemized deduction limitation reduces allowable itemized deduction for taxpayers in the 37% bracket. The reduction effectively limits the benefit of itemized deductions for high-income taxpayers to 35% rather than 37% (if the deductions fall within that bracket).

# Charitable Contribution Deduction: Pain Points

Itemizers who do not donate significant amounts to charity may lose most or all the tax savings for their donations.

High income itemizers will lose a material portion of the tax savings from their donations because of the 0.5% AGI floor and the new itemized deduction limitation.

# Charitable Contribution Deduction: 2026 Planning Opportunities

Itemizers should consider “bunching” contributions so that the 0.5% of AGI floor has less effect on total donations.

Itemizers should consider using a donor-advised fund (DAF) to take a large charitable contribution deduction in one year, reducing the impact of the 0.5% of AGI floor on total donations.

Business owners should consider converting §170 charitable deductions into §162 business deductions by making them have a direct relationship to the business, such that there is a reasonable expectation of financial return commensurate with the amount of the donation.

# Gambling Winnings and Losses: Best Practices

- All gambling winnings must be reported as income on your tax return
  - includes but isn't limited to winnings from lotteries, raffles, horse races, and casinos
  - includes cash winnings and the fair market value of prizes, such as cars and trips.
- Gambling losses are deductible ONLY with itemizing and only 90% of losses can be used to offset winnings effective 2026
  - Loss deduction cannot exceed your reported winnings
- Detailed Record keeping is Required
  - an accurate diary/log
  - receipts, tickets, statements, or other documentation
- Generally, nonresident aliens of the United States who aren't residents of Canada can't deduct gambling losses.

# Gambling: Pain Points

For both casual and professional gamblers, these limitations can create phantom income (or tax), resulting in a taxable gain even when expenses and losses incurred could offset it.

Professional gamblers who have a loss year from §162 business expenses cannot use that loss, unlike any other trade or business.

# Gambling: 2026 Planning Opportunities

Casual gamblers should track gambling sessions to determine their wagering gains and losses:

- Both the IRS and the Tax Court approve of this method.
- A session can be determined based on a taxpayer's facts and circumstances, including online gambling.
- The use of sessions nets winning bets and losing bets within a session, avoiding the loss limitation provision, and reducing a taxpayer's AGI.
- A taxpayer must keep good records and contemporaneous documentation, which is a challenge

# OBBBA: Trump Accounts

- A proposed tax-exempt savings trust for American children born between 2025 and 2028
- Annual Contribution Limit: Up to $5,000 (indexed after 2027) for any year before the beneficiary will turn 18 with no distributions permitted until subsequent years
- Limited until age 30 with qualified tax distributions enjoying capital gain treatment
- Employers can contribute up to $2500 (indexed after 2027) yearly
- Federal Pilot Contribution: Eligible children receive a $1,000 initial deposit through a credit to parents tax return.
- Qualified Uses: Funds can be used for:
  - Higher education or vocational training
  - First-time home purchase
  - Start-up capital for a business
- An authorized individual such as a parent, may make an election to establish a Trump account on Form 4547
- Contributions to a Trump account cannot be made before July 4th 2026

# 5 Types of Trump Accounts

There are 5 types of Trump account contributions in the growth period.

1. A pilot program contribution of $1000 for an eligible child from the U.S. Treasury.
2. Qualified general contributions. These are contributions made by the federal government, state governments or tax exempt 501(c)(3) organizations
3. Employers may contribute to the Trump accounts of an employee or employees dependent under §128. The first $2500 of each contribution is tax-free to the employees. Employer contributions would be a deductible business expense as a tax-free fringe benefit.
4. Qualified rollover contributions. These are trustee-to-trustee transfers from one Trump account to another. Only one Trump account can be active for the same account beneficiary at the same time.
5. Contributions from all other sources. Contributions may be made by the account beneficiary parents and other relatives and other people. There is no tax deductions for the contributions to a Trump account

# Trump Accounts: Pain Points

A child who has not attained age 18 during 2026 can elect to open a Trump account. This can be done by filing Form 4547, Trump Account Election(s), with the 2025 Form 1040 or visiting trumpaccounts.gov.

General contributions by the child, the family, and other people may require a gift tax return if the Trump account contribution is deemed to be a gift of future interest. There is no guidance on this yet, and a statutory technical correction may be needed.

Conversations with clients about Trump accounts will take time during the busy season; however, it is important to have discussions.

# Trump Accounts: 2026 Planning Opportunities

A taxpayer should elect to open a Trump account, and possibly make contributions to it, for a child if:

- The account will receive free funds (the $1,000 pilot payment, a state or charity payment, or §128(c) Trump account employer plan contribution)
- The child plans to convert the Trump account balances into a Roth IRA at a low effective tax rate.
- The family wishes to begin saving for the child's future and take advantage of compounding, but not restrict the use of the funds for educational purposes (i.e, a 529 §plan).

If a child turns 18 in tax year 2027, opening and funding a Trump account with family and friends contributions may allow for a tax-free Roth conversion in early 2027.

# Digital Assets: Overview

- Includes: virtual currency, cryptocurrency, or any exchange of value via non-traditional financial systems (BTC, ETH, Alt Coins, Meme Coins, NFTs, Video Game Currency, etc)
- Earliest reporting requirements will be for transactions occurring during tax year 2025 (with information returns to be issued in 2026 with respect to those transactions)
- Wash Sales - Does not apply to cryptocurrency
- Letter 6173 - Requires Response
- Letter 6174 - Soft Warning
- Letter 6174-A - Strong Warning

# Form 1099-DA (Digital Assets)

- IRC §6045 (Broker Reporting) - Transaction transparency
  - Infrastructure Investment and Jobs Act defines broker as:
    - *"any person who (for consideration) is responsible for regularly providing any service effectuating transfers of digital assets on behalf of another person."*
- IRC §6045A (Broker to Broker Transfers) - Requires transfer statements when DAs move between brokers
  - Prevent basis fragmentation and reporting gaps as assets move across platforms
- IRC §60501 (Large Receipt Reporting) - Anti-money laundering & illicit finance detection
  - Requires reporting for digital asset receipts over $10,000

# Digital Assets: Additional Guidance

- Notice 2014-21–Tax treatment of transactions
- Revenue Ruling 2019-24–Tax implications of a hard fork
- Final Regulations 2024-07-09-Gross proceeds and basis reporting
- Notice 2025-07|PDF-Temporary relief for eligible taxpayers
- Part I FAQs: -FAQs 1-46, explains the general tax principles applicable to property transactions outlined in Notice 2014-21.
- Part II FAQs: -FAQs 47-111, addresses the changes made by the 2024 digital asset information reporting regulations, including the use of the term “digital asset.”
- 202511015.pdf -Allowance of Theft Losses for Victims of Scams Under IRC Section 165

**Digital assets | Internal Revenue Service**

# IRS Implementation Plan: Eliminating Paper Checks

- Electronic filers who don't provide banking information for direct deposit will receive a **MeF alert** at time of filing and will receive **CP53E** notice.
  - Banking information for direct deposit, or a reason (waiver) why banking information cannot be provided within 30 days.
  - A phone number will be provided for those who wish to claim a waiver but cannot do so through the individual online account

# IRS Implementation Plan: Eliminating Paper Checks

- Refunds will be held for up to 6 weeks from the time the return is fully processed.
  - If banking info is provided, direct deposit will be used.
  - If waiver is requested, or 6 weeks pass then paper check will be used.

# AI Future Impact on Tax Returns

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- AI will make personal tax filing easier, faster, and more accurate
- Real-time optimization can help reduce penalties and increase savings
- Advanced AI can read handwriting and context for better classification
  - Optical Character Recognition (OCR)
  - Intelligent Character Recognition (ICR)
  - Natural Language Processing (NLP)

# Real World Applications of AI in Tax Practice

**Smart Classification and Auto-Population**

AI sorts and auto-populates tax data into categories like income, expenses, and assets

Improves accuracy by learning from past classifications and context. This reduces manual efforts.

**Auto-Reconciliation**

AI checks records against bank feeds to catch mismatches or errors

**Special Forms Handling**

AI understands complex tax forms and handles them intelligently

**Compliance and Error Checks**

AI checks filings for missing forms, SSN mismatches, and red flags. Facilitating automation of instant amendments.

# How the Government Uses AI in 2026

- Audit Trail and Traceability
  - Systems now show how and where each data came from for audits
- Communication and Correspondence
  - AI is being used by government agencies and tax specialists to answer emails and letters.
- IRS and State Governments use AI for audits, fraud detection, and customer service
- AI is being used to draft tax laws and predict court outcomes.

# AI Risks, Ethical, and Legal Concerns

- AI can make bias and unexplainable decisions
  - Human in the loop training and oversight is necessary
- Legal and reputational risks arise if AI decisions go unchecked
- Inevitable Job Displacement
  - Automation requires workforces to be retrained to prosper in an AI dominated economy

# IRS Lifestyle Audits In the Era of AI

AI can use multiple data sources to predict outcomes, and provide helpful insights and advice to help the tax industry get more done with less resources.

1. Integrated cloud allows the IRS and federal government to have behavioral data points regarding spending habits and lifestyle choices. Ensuring transparency during the tax collection and audit process.
    a. Social media, online banking, credit card transactions, travel logs, etc

# Earned Income Credit Refund Delay

Refunds for taxpayers claiming the Earned Income Credit will not be issued before February 15.

This applies to the entire refund, not just the portion associated with the credit.

There is no provision for hardship claims before February 15

The delay gives the IRS additional time to verify EIC claims and reduce improper payments.

# SSN Requirements For Earned Income Credit

For a married couple filing jointly, both spouses must have valid Social Security Numbers by the due date of the return (including extensions). Additionally, any qualifying child listed on Schedule EIC must also have a valid SSN.

# Child Tax Credit

Either the taxpayer or the spouse must have an SSN. The other spouse may have an Individual Taxpayer Identification Number (ITIN), but it must have been issued on or before the due date of the return (including extensions).The qualifying child must have a valid SSN that was issued on or before the due date of the return (including extensions).

SSN Work Authorization:

A Social Security card that reads "Valid for Work Only with DHS (or INS) Authorization" qualifies for the Child Tax Credit. However, a card that says "Not Valid for Employment" and was issued for use in getting a federally funded benefit does not qualify.

# The IRS Collections Cycle

**CP14** – Initial balance due

**CP501 / CP503 / CP504** – Reminder notices and escalating warnings before levy actions.

- **CP501** – first reminder
- **CP503** – second reminder
- **CP504** – Notice of Intent to Levy

**Final Notice of Intent to Levy** – Could be **CP90 / LT11 / Letter 1058** (giving you 30 days to respond before enforcement).

# IRS Collections Enforcement

**Specific levy notices:**
- **CP91** – Intent to levy Social Security benefits.
- **CP92** – Notice that a state tax refund was levied.

**Notice CP508C**
Notice informing them that the **information has been provided to the Department of State**, which generally **will not issue or renew the passport and may revoke or place restrictions** on it.

- The liability amount that causes passport revocation or refusal of renewal is more than $64,000 for 2025

# Estimated Tax Penalty Rules for Individuals

Increased efforts and resources dedicated by the government to enforcement makes these rules and procedures important.

You can avoid an estimated tax penalty by paying through withholding or timely estimated tax payments either:

1. at least 90% of the tax shown on the current year return,
2. or 100% of the tax shown on the prior year return
3. or 110% if prior year AGI exceeded $150,000, or $75,000 if married filing separately

# Estimated Tax Installment Payments for Individuals

Payment Due Dates for 2026:

- First installment (Jan 1-Mar 31): April 15, 2026
- Second installment (Apr 1-May 31): June 16, 2026
- Third installment (Jun 1-Aug 31): September 15, 2026
- Fourth installment (Sep 1-Dec 31): January 15, 2027

# Retirement Inflation-Adjusted Amounts

## 401(k), 403(b), 457 Elective Deferral Limits

- Under age 50: $23,500
- Catch-up contribution (age 50+): $7,500
- At least age 50 (by end of year): $31,000

## Traditional and Roth IRA Contribution Limits

- Under age 50: $7,000
- Catch-up contribution (age 50+): $1,000
- Total if at least age 50 (by end of year): $8,000

## Simple Plans Elective Deferral Limits

- Under age 50: $16,500
- Catch-up contribution (age 50+): $3,500
- At least age 50 (by end of year): $20,000

## SEP Contribution Limits

- The eligible compensation limit is $350,000
- Minimum compensation for eligible employee is $750

The phase out amount varies.

# IRA Phaseout Ranges

## Traditional IRA Deduction Phaseout Ranges for an Active Participant in an Employer Plan

- S/MFS lived apart all year/HOH: $79,000 - $89,000
- MFJ/QSS: $126,000-$146,000
- MFS lived together at any time during the year: $0 - $10,000
- Taxpayer not an active participant, but spouse is: $236,000 - $246,000

## IRA Contribution Phaseout Ranges

- S/MFS lived apart all year/HOH: $150,000 - $165,000
- MFJ/QSS: $236,000 - $246,000
- MFS lived together at any time during the year: $0 - $10,000

# Long Term Capital Gains Rates

## 0% Rate:

Single: $0 - $49,450

Married Filing Jointly/Qualifying Surviving Spouse: $0 - $98,900

Married Filing Separately: $0 - $49,450

Head of Household: $0 - $66,200

Estates/Trusts: $0 - $3,300

## 15% Rate:

Single: $49,451 - $545,500

Married Filing Jointly/Qualifying Surviving Spouse: $98,901 - $613,700

Married Filing Separately: $49,451 - $306,850

Head of Household: $66,201 - $579,600

Estates/Trusts: $3,301 - $16,250

# Long Term Capital Gains Rates

**20% Rate:**

Single: $545,501 and above

Married Filing Jointly/Qualifying Surviving Spouse: $613,701 and above

Married Filing Separately: $306,851 and above

Head of Household: $579,601 and above

Estates/Trusts: $16,251 and above

## Special Rates:

The 25% rate applies to unrecaptured section 1250 gain, and the 28% rate applies to collectibles and the taxable portion of qualified small business stock gains. Short-term capital gains continue to be taxed at ordinary income tax rates.

# Contact Me:

Serina Moy: Licensed Practitioner
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