New 2025 Federal Legislation and Analysis of Pending Tax Proposals

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Table of Contents

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SOME CHALLENGES TO ANTICIPATING 2025 FEDERAL TAX CHANGES

As we consider anticipated tax extenders and tax changes for tax year 2025 and future years a few variables of concern in addition to expected tax changes.

- What portion of new or modified tax changes will be retroactive to January 1, 2025 or even earlier years? For example, extending TCJA which is already in place will not have much significance retroactively on tax year 2025 or even 2024, but it possible Bonus Depreciation or the need to capitalize R & D expenses may be changed retroactively.

- What impact will federal changes have on state tax conformity? For example, the PTET election sunsets December 31, 2025 for the state of California primarily because that was the federal sunset date for the SALT limitation. Will states pass legislation related to new federal tax legislation and will it pass at the state level in time to file 2025 state tax returns without extension.

- SECURE 2.0, Medicaid & Social Security: At this time there have been many proposals and scary predictions for changes to Medicaid and possibly Social Security benefit changes for a select group of non-citizens in addition to real reductions in work force and cuts to resourcing for the Social Security Administration but specific changes to benefits have not been announced yet nor have any substantial changes to tax provisions related to SECURE 2.0.

- TCJA resulted in a new format for Form W-4, will any new 2025 federal legislative changes affect that form for 2025 or future years?

- While many funding cuts, reductions in workforce, and other policy changes have already been implemented we are still waiting for specifics of pending changes to tax law. At this time the legislators are planning to have a major tax bill passed by the Senate by July 4, 2025, so we certainly may have answers sooner than later.

TAX CUTS AND JOBS ACT EXPECTED TO BE EXTENDED

If provisions of the Tax Cuts and Jobs Act (TCJA) are not modified or extended by December 31, 2025, they will revert to their pre-2018 levels. Although the 2024 U.S. elections ushered in Republican control of the White House and legislature, narrow Republican majorities in the House and Senate have created challenges to the current plan to renew most of the provisions of TCJA.

Last month the House and Senate agreed to adopt a budget resolution that is intended to aid in passing a 'reconciliation' bill. ***Information published to date has been heavy on anticipated cost savings but light on the specifics of tax provisions.***

Leaving budgeting and accounting analysis aside, the House and Senate bills both include provisions to extend the TCJA and extending a few other provisions which have already expired.

Both chambers of the legislature are also considering raising the SALT limit, which actually has bi-partisan support. Other provisions which could increase the “cost” of the new legislation but also have bi-partisan support include eliminating the provision to capitalize federal R & D expenses when claiming the credit and re-upping the bonus depreciation limit to 100% again.

Other potential tax changes being considered would be related to President Trump's campaign promises such as eliminating taxes on tip income and Social Security benefits. But these potential tax cuts are also being viewed skeptically by some Republicans who are afraid of cuts to Social Security and Medicaid.

Highlights of One Big Beautiful Bill, H.R. 1, (OB3, Act)

OBBB Individual Provisions

- Tax rates made permanent with additional year of inflation adj except 37% rate
- Standard deduction 2025 to 2028 additional $1,000 S, $1,500 HH, $2,000 MFJ
- Child tax credit 2025 to 2028 raises to $2,500 from $2,000 (SSN requirement)
- Enhanced Senior deduction 2025 to 2028, $4,000 for age 65+, MAGI can't exceed $75,000 single, and $150,000 MFJ

OBBB Individual Provisions: Itemized Deductions

- Charitable contributions 2025 to 2028, for non-itemizers $150 single, $300 MFJ
- Car loan interest deduction 2025-2028, up to $10,000 below the line, added to itemized deductions, final assembly in US, phases out $100,000 single, $200,000 MFJ
- Casualty loss deductions disallowed except for federal declared disaster made permanent
- Miscellaneous itemized deductions (2% floor) permanently eliminated
- SALT cap, single or MFJ, $40,000 with income phase out back to $10,000

OBBB Other Individual Provisions

- No Tax on Tips: Begin 2025, Customarily tipped professions, excludes highly compensated $160,000, adds hair care to employer tips credit
- No Tax on Overtime: Begin 2025, only the OT portion over the base wage rate, excludes highly compensated $160,000, SSN required
- Estate Exemption beginning 2026 raised to $15M, will be indexed for inflation

OBBB Individual Provisions for Health Care

- Doubles HSA contribution limits for 2025, $4,300 X 2 individual and $8,550 X 2 families for taxpayers earning under $75,000 ($150,000 families), phasing out at $100,000 ($200,000 families).
- HSA funds may be used for fitness memberships and personal trainers, $500 individual, $1,000 families.

- Permits use of HSA funds for medical costs incurred within 60 days of setting up account.
- Bronze/catastrophic plan now HSA eligible regardless of out of pocket limits
- Permits HSA contributions for individuals eligible for Medicare Part A due to age in enrolled in qualifying high-deductible health plan
- Permits both spouses to make catch up contributions to the same accounts
- Premium Tax Credit limitations based on immigrant status
- Requires annual verification of eligibility
- Eliminates repayment limitations, full recapture required

OBBB Education Provisions

- Exclusion of discharge of student loans made permanent, due to death or disability, add SSN requirement
- Exclusion from income for $5,250 employer student loan reimbursement made permanent,
- Education credits require SSN
- 529 Plans expanded to now include elementary, secondary, and home school expenses for curriculum, books, instructional materials, online education, tutoring or educational classes outside the home, testing fees, dual enrollment fees, educational therapies for disabled students, postsecondary credential programs.

OBBB Individual Provisions: Clean Car & Energy Credits

- New clean vehicle credit sunsets Dec 31, 2025, limited credit available 2026 with limits related to number of units sold coming back
- Used clean vehicle credit sunsets Dec 31, 2025, limited credit available 2026 with limits related to number of units sold coming back
- Alternative refueling property credit sunsets Dec. 31, 2025
- Energy home improvement credit sunsets Dec 31, 2025
- Solar credit sunsets Dec. 31, 2025

OBBB Business Provisions

- Bonus Depreciation 100% beginning Jan. 20, 2025 to Dec 2029
- Section 179 substantially increased beginning 2025, maximum expensing raises from $1.25M to $2.5M, depreciable assets, off the shelf software, and qualified real property
- R&D Expensing permitted, possibly retroactive but not in latest bill
- QBI made permanent, raised to 23%, SSTBs will have regular phase out

- PTET elections: Allocated to components of income, eliminated for SSTBs
- Qualified Opportunity Zone Funds, new round available
- Commercial clean vehicle credit sunsets Dec. 31, 2025

OBBB Information Return Changes for Tax Year 2025

- Form 1099 & 1099-NEC reporting increases from $600 to $2,500 *($600 is from 1954!)*
- Form 1099-K reverts back to $20,000 and more than 200 transactions

OBBB Solar and Other Energy Tax Programs

Current legislative proposals look to eliminating several energy tax programs implemented by Inflation Reduction Act, including Low-Carbon Transportation Materials Grants Program and the Federal Aviation Administration's Alternative Fuel and Low-Emission Aviation Technology Programs.

EXCERPT FROM TRUMP'S PLANS FOR 2026 BUDGET

Program Name	$ Change from 2025 Enacted (in millions)	Brief Description of Program and Recommended Reduction or Increase
Cuts, Reductions, and Consolidations		
Internal Revenue Service (IRS)	-2,488	The Budget ends the Biden Administration's weaponization of IRS enforcement, which targeted conservative groups and small businesses. The elimination of certain complex tax credits and technology improvements would increase IRS efficiency. The reduction would protect functions in Taxpayer Services.

Tax Provisions for Individuals and Families PRE-OBBB, HR-1

Individual Tax Rates

Marginal tax rates are applied to a taxpayer's taxable income to calculate their income tax liability before any credits are claimed. The range of income over which a particular rate applies and its associated rate is often called a **tax bracket.**

Income ranges are annually adjusted for inflation. Currently, under the TCJA, marginal rates for individuals are 10%, 12%, 22%, 24%, 32%, 35%, and 37%. (Note: Taxes on capital gains and dividends were not changed by the TCJA.)

Some recent news suggested the pre-TCJA highest tax rate 39.6%, for very high income individuals may make a comeback, but there is strong opposition to it among the Republican party.

Child Tax Credit

The child tax credit allows a taxpayer to reduce their federal income tax liability by up to $2,000 per qualifying child, under age 17 by the end of the tax year. Lower income taxpayers with little or no federal income tax liability may be eligible to receive some or all of the credit as the refundable portion of the credit—the additional child tax credit, or ACTC.

For higher-income taxpayers, the credit amount phases down if income exceeds the phaseout threshold. Maximum credit: $2,000 per child Maximum ACTC: $1,400 per child (The ACTC is adjusted for inflation and equals $1,700 in 2024.)

The formula for calculating ACTC is: 15% of earned income above $2,500, up to the maximum credit phaseout threshold: $200,000 unmarried taxpayers / $400,000 married taxpayers. Aside from the maximum ACTC amount, none of the provisions of the child tax credit are adjusted for inflation.

Without further legislation, the child tax credit will revert to its pre-TCJA provisions.

- Maximum credit: $1,000 per child
- Maximum ACTC: $1,000 per child
- Formula for the ACTC: 15% of earned income above $3,000, up to the maximum credit phaseout threshold: $75,000 unmarried taxpayers / $110,000 married taxpayers.
- None of the parameters are adjusted for inflation.

Taxpayers claiming the child tax credit (including the ACTC) will need to provide the child's taxpayer ID number, which includes their Social Security number (SSN) or, if they are not eligible for an SSN, their individual taxpayer identification number (ITIN).

Credit for Other Dependents

The "credit for other dependents" or "other dependent credit" (ODC) allows taxpayers to reduce their income tax liability by $500 for each dependent that is not eligible for the child credit. This includes older (nonchild) dependents, children lacking an SSN, and children aged 17 years and older (as the child tax credit only applies to children under age 17).

The $500 amount per other dependent is not adjusted for inflation and is nonrefundable. The total ODC amount is added to a taxpayer's child tax credit amount (if any), and then subject to the same phaseout as the child credit. Taxpayers do not have to provide an SSN for ODC-eligible dependents.

Without further legislation the Credit for Other Dependents will expire after December 31, 2025.

Individual Above-the-Line Tax Deductions

Alimony Paid or Received
(Remains the same as TCJA under OBBB, HR-1)

TCJA eliminated the deduction for alimony for divorces beginning in 2018, and therefore made the receipt of alimony non-taxable for the recipient. We have heard no proposals to modify the TCJA changes to alimony provisions.

Moving Expense Deduction
(Remains the same as TCJA under OBBB, HR-1)
Currently, under TCJA, only members of the Armed Forces can claim an above-the-line deduction for moving expenses incurred as a result of work at a new location. Other taxpayers are not eligible to claim this deduction.

This limitation is set to expire December 31, 2025, which would make the Moving Expense Deduction available for all qualifying individual taxpayers. All eligible taxpayers would be able to claim an above-the-line deduction for moving expenses incurred as a result of work at a new location, subject to certain conditions dealing with the individual's employment status as well as the distance of the move. (These conditions will not apply to members of the Armed Forces.)

Itemized Deductions

Charitable contributions
(Remains the same as TCJA under OBBB, HR-1)
The TCJA temporarily increased the AGI limit for cash donations made to public charities from 50% to 60%. Other limitations based on the form of the donation and the recipient organization were unchanged by the TCJA.

Unless the 60% of AGI increase is extended, cash contributions to public charities will generally be limited to 50% of the taxpayer's AGI after December 31, 2025.

State and local tax (SALT) deduction
(Raised to $40,000 under OBBB, HR-1)
Currently, under TCJA taxpayers who itemize their deductions on Form 1040, Schedule A, are limited to only $10,000 in state and local income taxes, sales taxes (in lieu of income tax), and property taxes, as well as foreign income taxes (but not foreign real property taxes). The $10,000 limit applies to all filing statuses. There is bipartisan support to increase the SALT limitation for joint filers to $20,000.

Unless the SALT limitation is extended at the current $10,000 level, presumably more taxpayers may benefit from itemizing deductions. Among other options, there is also the possibility the SALT limitation will be extended but may be revised upward above $10,000.

Itemized Deductions for State, Local and Other Taxes may be affected as follows:
- An increased amount or the full amount of property taxes paid for homes, multiple homes, and investment property may be deductible.
- Individuals may be able to capitalize property tax for real estate held for investment, which has been denied by SALT limitations.
- Foreign property taxes may be deductible.
- Some individuals may be subject to AMT based on taxes deducted on Schedule A.
- Federal tax planning for state income tax may be advisable for some individuals.
- Bunching of property tax payments may also be advisable.
- State Pass-Through Tax Elections for businesses may be affected, see below.

Mortgage interest deduction
(Remains the same as TCJA under OBBB, HR-1)
Currently, under TCJA, taxpayers who itemize their deductions may only deduct interest paid on the first $750,000 ($375,000 for married filing separately) of mortgage acquisition debt (combined for first and second homes). The limitation applies to new loans incurred after December 15, 2017. Taxpayers with mortgage acquisition debt incurred on or before December 15, 2017, who itemize their deductions may deduct interest on the first $1 million ($500,000 for married filing separately) of combined mortgage debt.

No itemized deduction is allowed for interest payments for other than acquisition debt at the limits above. However, for business, rental, or investment purposes individuals may trace the use of loan proceeds, secured by a home, for deductions applicable to business, rentals, or investments.

Unless extended or revised, after December 31, 2025, the $750,000 limitation will increase to $1 million of combined (first and second home) acquisition debt regardless of when the debt was incurred. The interest on the first $100,000 of home equity debt will also be deductible. And reverting to pre-TCJA mortgage interest rules may also put federal mortgage interest deductions in line with some states.

Personal casualty and theft loss deduction
(Remains the same as TCJA under OBBB, HR-1)
Generally, under TCJA, taxpayers who itemize their deductions can only claim a deduction for non-compensated personal casualty and theft losses associated with a presidentially declared disaster. These casualty losses are generally deductible if they exceed $100 per casualty ($500 in some cases), and to the extent aggregate net casualty losses exceed 10% of adjusted gross income (AGI), unless the AGI limit does not apply. See our material on Casualty Losses After TCJA, later in the material.

If this provision of TCJA is not extended, presumably taxpayers will be able to claim an itemized deduction for non-compensated personal casualty and theft losses regardless of whether the losses result from a federally declared disaster.

Wagering losses deduction
(Remains the same as TCJA under OBBB)
Currently, under TCJA, taxpayers who itemize their deductions can deduct gambling losses, provided those losses do not exceed gambling winnings included in gross income and professional gamblers may not deduct ordinary and necessary non-wagering business expenses which exceed their gross gambling winnings less wagers.

If the TCJA gambling rules sunset, professional gamblers will be able to deduct ordinary and necessary non-wagering business expenses.

TAX NOTE: Recreational gamblers are permitted an above the line deduction for their "same day losses" under "pre" or "post" TCJA provisions.

Itemized deduction Phase Out for AGI
(Remains the same as TCJA under OBBB)
TCJA eliminated the itemized deduction phaseout related to AGI, known as the Pease Limitation. Currently, the total amount of itemized deductions that can be claimed by a taxpayer is the sum of all allowable itemized deductions and there is no overall limitation on itemized deductions.

Without further legislation, if this provision sunsets, taxpayers with AGI above certain thresholds, will find the total amount of itemized deductions will be reduced by 3% of the amount by which their AGI exceeds the threshold. (For 2018, before the TCJA, the thresholds once adjusted for inflation would have been $320,000 for married taxpayers filing jointly and $267,700 for singles.)

The total reduction will be capped at 80% of the deductions. Itemized deductions not subject to the limitation include deductions for medical and dental expenses, investment interest, charitable contributions, casualty and theft losses, and wagering losses.

Itemized deduction for miscellaneous expenses
(Remains the same as TCJA under OBBB, HR-1)
TCJA also eliminated the itemized deduction for miscellaneous deductions subject to the 2% floor.

If this provision sunsets December 31, 2025, we can expect the following:

- Unreimbursed employee business expenses will be deductible using Form 2106
- Brokerage fees and investment advisors' fees will be deductible
- Tax preparation fees will be deductible
- Job search costs and other job related costs and union dues will be deductible
- Expenses incurred by some trusts classified as miscellaneous itemized deductions will be deductible
- Legal fees incurred related to law suit settlements which are ineligible to deduct above the line fees will be deductible
- Certain legal fees related to tax planning and estate planning will be deductible
- Certain legal fees related to income issues involving divorce may be deductible

Exclusions

Bicycle commuter reimbursement
(Permanently eliminated under OBBB, HR-1)
Currently, under TCJA, Employer reimbursements for bicycle commuting expenses are considered wage income and therefore subject to income and employment (i.e., "payroll") taxes.

If this provision sunsets, up to $20 per month of qualified employer reimbursements for bicycle commuting expenses will be excludible from wage income, and hence not subject to either income or employment (i.e., "payroll") taxes.

Moving reimbursement exclusion
(Remains the same as TCJA under OBBB, HR-1)
Currently, under TCJA, employer reimbursements for moving expenses are only excludible from income and wages for members of the Armed Forces and pursuant to a military order for a permanent change of station. For all other employees, such benefits are considered wage income and hence subject to income and employment (i.e., "payroll") taxes.

If this provisions sunsets, qualified moving expense reimbursements from an employer will be excludible from an employee's wage income, and hence not subject to either income or employment (i.e., "payroll") taxes.

Combat zone tax benefits for members of the Armed Forces in the Sinai Peninsula
Typically, combat zones are designated by the President in an Executive Order as an area where the Armed Forces are or have engaged in combat. Under the TCJA, the Sinai Peninsula is statutorily presumed to be a combat zone.

If the current provision sunsets, the Sinai Peninsula will not be statutorily presumed to be a combat zone. Unless the Sinai Peninsula is designated as a combat zone under the usual process (IRC Section 112), members of the Armed Forces serving in this area will not be eligible for combat zone tax benefits.

ABLE Accounts

Achieving A Better Life Experience (ABLE) account contribution limit
ABLE accounts are tax-favored savings accounts intended to encourage qualifying disabled individuals (referred to as "designated beneficiaries") to save money for certain disability-related expenses (in a tax-preferred way) without losing eligibility for certain federal means-tested programs, such as Medicaid.

Currently, in a given year an ABLE account cannot receive aggregate contributions in excess of the annual gift tax exemption, which is $18,000 in 2024. Under the TCJA, a designated beneficiary who is employed can contribute an additional amount to their ABLE account (above the annual gift-tax exclusion amount). The additional amount is equal to the lesser of (1) the applicable federal poverty level for a one-person household in the prior year, or (2) the beneficiary's compensation for the year. A beneficiary cannot contribute this additional amount for the year if any contribution is made on their behalf to certain defined contribution plans.

If this provision sunsets, the gift tax exclusion will still apply, but designated beneficiaries will not be able to make the additional contribution of up to the lesser of the federal poverty level for a one person household or the beneficiary's compensation.

ABLE accounts and the saver's credit
(Extended under OBBB, HR-1)
Currently under TCJA, designated beneficiaries who make qualified contributions to their ABLE account can qualify for a nonrefundable saver's credit of up to $1,000.

If this provision sunsets, designated beneficiaries will not be able to claim the saver's credit for their contributions.

> **TAX NOTE:** SECURE 2.0 Act of 2022 (Section 103 of P.L. 117-328) included a provision aimed at promoting retirement savings among low-income households that effectively repeals the saver's credit under IRC Section 25B and replaces it with a saver's match under IRC Section 6433, effective 1/1/2027.

529 Plan to ABLE account rollover
(Extended under OBBB, HR-1)
Currently, under TCJA, rollovers from a 529 account to an ABLE account (plus any other contributions to the account for the year) that are less than or equal to the annual ABLE contribution limit are not subject to income taxation, provided that the accounts have the same designated beneficiary (or the designated beneficiaries of the two accounts are members of the same family). The portion of the rollover (plus any other contributions to the account) in excess of the annual contribution limit is taxable.

If this provision sunsets, all rollovers from 529 accounts to ABLE accounts will be subject to taxation.

Estate and gift tax
(Increased to $15M, adjusted for inflation under OBBB, HR-1)
Estate and gift taxes are levied at a rate of 40% on transfers after excluding a fixed amount from taxation, known as the estate tax exclusion. Under TCJA, for decedents who die in 2024, the exclusion amount is $13,610,000 per decedent ($10 million per decedent statutorily adjusted annually for inflation).

Without further legislation, the estate and gift tax exclusion amount will be reduced by half, for individuals dying in 2026 or later years. After December 31, 2025, the exclusion will revert to $5 million per decedent statutorily and then adjusted annually for inflation, down from the TCJA level of $10 million per decedent.

Business Provisions

Employer credit for paid family and medical leave
(Enhanced and extended under OBBB, HR-1)
Under current law with TCJA, employers paying wages to employees on family and medical leave may be eligible for a tax credit. The credit amount is calculated as a percentage of wages paid to a qualifying employee while on family and medical leave. If the employers pay 50% of wages normally paid while an employee is on family and medical leave, the credit is 12.5% of wages paid, proportionally increasing to a maximum credit of 25% for paid leave worth 100% of wages normally paid.

Employers may claim the credit for up to 12 weeks of paid leave per employee. Leave required by state or local law does not qualify for the credit. Leave provided in excess of legally required minimums may qualify for the credit. For example, if an employer provided a paid family and medical leave benefit with 100% wage replacement, while legally required to provide a 50% wage replacement benefit, the excess 50% may qualify for the credit.

However, many state or local laws regarding paid family or medical leave require a wage replacement rate above 50%, so benefits paid to employees in those jurisdictions are likely not eligible for the credit. As state and local governments continue to adopt paid family and medical leave policies, the pool of employers who are potentially eligible for this credit may be shrinking.

Eligible employers are those that allow qualifying full-time employees at least two weeks of paid family and medical leave (with leave time prorated for part-time employees) separate from vacation, personal, or sick leave.

A qualifying employee is one who has been employed by the employer for at least one year, and who, during the preceding year, had compensation up to 60% of the compensation threshold for highly compensated employees.

Under TJCA, this credit originally expired on December 31, 2019, later legislation extended it through 2025. Without further legislation, no credit will be available for employer provided paid family and medical leave.

NOL Rules Under TCJA
(Remains the same as TCJA under OBBB, HR-1)
Under current TCJA rules, a net operating loss (NOL), carryforward is limited to 80% of taxable income and NOL carrybacks were eliminated except for a few years under the CARES Act. TCJA also lifted the 20-year limit on NOL carryforwards.

If the Tax Cuts and Jobs Act sunsets, the 2 year carryback will return. Carryforwards will be limited to 20 years again and NOLs should be able to fully offset current year earnings.

Qualified Business Income Deduction "199A Deduction"
(Extended under OBBB, HR-1)
Generally, business income from Schedule C or Schedule F, and rental income from Schedule E or Form 4835, and pass-through business income from Form 1065 or Form 1120-S, and in some cases Form 1041, is taxed according to ordinary individual income tax rates.

The TCJA created a deduction equal to 20% of qualified business income (QBI). The deduction is limited to the greater of 50% of W-2 wages, or 25% of W-2 wages plus 2.5% multiplied by depreciable property (equipment and structures). Specified service trade or businesses (SSTBs) generally may not claim the deduction after the individual's income reaches certain phaseout ranges. Also note, the QBI deduction does not apply to shareholder wages or partners' guaranteed payments.

The deduction limitation and SSTB limitation do not apply if taxable income is less than $191,950 (single) or $383,900 (married) in 2024. These limitations are phased in over a $50,000 (single) and $100,000 (married) range, and thus apply fully if a taxpayer's income is at or above $214,950 (single) and $483,900 (married).

If the Section 199A deduction expires December 31, 2025, individuals reporting non-C corporation business and rental income will lose a substantial federal tax deduction. Due to the income phaseout and the SSTB phaseout related to this QBI deduction, a loss of this deduction will impact lower to middle income taxpayers the most.

Originally, the possible combination of higher individual income tax rates and loss of the 20% QBI deduction beginning in tax year 2026, may lead to tax planning to accelerate income in tax year 2025 to keep taxable business income in 2026 lower than we would plan without the TCJA sunset looming. This scenario seems unlikely now.

Corporate Tax Rate **DOES NOT SUNSET**

TCJA reduced the corporate tax rate from a graduated rate topped at 35% to a flat rate of 21%. Even if TCJA sunsets, the corporate tax rate will remain at 21% unless new legislation is passed, making this substantially unfair for smaller C corporations who may benefit from the old tiered rates, and unfair for the individuals currently benefitting from the QBI deduction, which will sunset without further legislation.

The disparity of the fact that the C corporation tax rate was made permanent with TCJA and QBI was scheduled to sunset December 31, 2025 now seems moot. And we have not seen any specific proposals to reverse any of the C corporation tax provisions from the Biden era yet, namely C corporation minimum tax and tax on stock buy backs.

STATE Pass Through Entity Elections **Depending on the State May Expire DEC 31, 2025 (Revised under OBBB, HR-1)**

As mentioned earlier in the material if new 2025 legislation only increases the SALT limitation for certain taxpayers the real challenge to nationwide PTET elections will be how each state which offers a provision for PTET credits chooses to handle the issue after December 31, 2025.

We'll have to evaluate the availability of this tax savings option as legislation related to expiring TCJA provisions unfolds. My state, California, for example does have a sunset date of December 31, 2025, tied to the federal TCJA SALT limitation expiration date. But California legislature also voted to keep the CA PTET if the SALT limitation is increased above $10,000 before the sunset date. And presumably the California legislature will vote to extend the CA PTET depending on federal legislation in this area.

General Provisions of PTET Elective Credits

Federal Tax Savings from PTET Credits: Generally, an individual's federal tax savings would be calculated as the amount of their pro rata share of the entity's PTET payment at the individual's top federal tax bracket. Therefore, some taxpayers may actually not benefit from participating, perhaps if they have losses, deductions, or non-taxable income which makes the PTET less valuable for them.

However, don't assume all low-income taxpayers will not benefit from their state's PTET. Non-itemizers will realize a federal deduction, lowering K-1 profits on pass-through entity income and still get the full standard deduction, essentially a double dip.

Federal & State Tax Benefits of PTET Elections

- **PTET Permits a Federal Deduction Which Is Limited on Schedule A**
  Individuals participating in a state's elective PTET credit opportunity receive a federal tax deduction for state income tax on pass-through entity income which may not be available on schedule A due to the federal SALT limitation.

- **Federal Savings Realized from PTET is at the Individual's Top Tax Rate**
  Lowering pass-through federal income from K-1s for individuals results in federal tax savings based on the individual's top federal tax rate.

- **PTET Deductions on Federal Pass-Through Income Lowers AGI**
  A PTET state tax SALT work around, moves deductible or non-deductible state tax from federal Schedule A to an above the line reduction in K-1 pass through income, thereby lowering AGI.

  Lowering pass-through federal income from K-1s for individuals may offer tax savings from reduced federal AGI for such items as:
  - Student loan interest deduction,
  - $25,000 exception to the passive loss limitations for rentals
  - Tuition credits
  - Taxable Social Security benefits
  - Long term capital gains tax thresholds
  - QBI phaseouts (See PTET Bunching analysis below)
  - IRA pension funding with other qualified plans
  - Electric car credits from the new 2022 federal legislation

- **Non-Itemizers Get the Federal PTET Deduction Plus Standard Deduction**
  Participating in a state's elective PTET credit opportunity permits taxpayers who do not itemize to *double dip*. They not only get a reduction on their federal K-1 income for the state taxes on the pass-through income, but they also get their full standard deduction.

- **Lowering Fed AGI May Lower State Taxes**
  Some states, including California, start their individual tax calculations with federal AGI, lowering federal AGI by PTET may also lower some state taxes.

- **PTET Deductions on Federal Pass-Through Income May Lower SE Tax** Lowering pass-through federal income from partnership K-1s for individuals results in federal tax savings realized as a reduction in SE Tax.

- **Lowering S corp Form 1120-S Profits May Reduce Reasonable Comp**
  Using state PTET credits lowers the federal taxable income for S corps, thereby possibly reducing exposure for some shareholder reasonable compensation.

  > **TAX NOTE:** Be sure to consider the PTET tax savings when evaluating the tax cost of shareholder wages, which will not be eligible for QBI or PTET, but still are an obligation for reasonable compensation compliance.

Bonus Depreciation **EXPIRES DEC 31, 2026**
(Raised to 100% under OBBB, HR-1)
A taxpayer generally must capitalize the cost of property used in a trade or business or held for the production of income and recover these costs over time through annual deductions for depreciation or amortization.

TCJA temporarily allowed full expensing (i.e., 100% bonus depreciation) through 2022, before phasing down ratably through the end of 2026. For 2024 the % for expensing will be 60%.

However, new legislation reinstating bonus depreciation at 100% would be welcomed by most businesses and equipment manufacturers and this does appear to have bi-partisan support.

Citrus plants lost by casualty **EXPIRES DEC 22, 2027**
The uniform capitalization (UNICAP) rules address the method for determining costs that taxpayers are required to capitalize or treat as inventory. They generally apply to property produced in a trade or business or acquired for resale. One exception is for edible citrus plants lost or damaged by reason of a casualty or similar event. Without further legislation, exception (C), below, will be eliminated after December 22, 2027.

The exception may apply to:

(A) The taxpayer's cost of replanting such citrus plants, and ***either***
(B) costs paid or incurred by other persons if the taxpayer has more than a 50% equity interest in the citrus plants at all times during the year and the other person owns any of the remaining interest and materially participates in the planting or similar activities, ***or***
(C) temporarily through the TCJA to third parties if (1) the taxpayer has an equity interest of at least 50% in the replanted citrus plants at all times during the year and the other person owns any of the remaining interest, or (2) the other person acquired the taxpayer's entire equity interest in the land on which the citrus plants were located and the replanting is on such land.

Excess Business Loss Limitation **EXPIRES DEC 31, 2028**
(Made permanent under OBBB, HR-1, added rules on calculating subsequent years)
For taxpayers other than C corporations, a deduction in the current year for excess business losses is temporarily disallowed, originally through 2026 by the TCJA and subsequently extended to 2028 by the Inflation Reduction Act (P.L. 117-169, IRA). For partnerships and S corporations, this provision is applied at the partner or shareholder level. In addition, such losses are treated as an NOL carryover to the following year.

An excess business loss is the amount that a taxpayer's aggregate deductions attributable to trades and businesses exceed the sum of:
(1) aggregate gross income or gain attributable to such activities, *and*
(2) $305,000 ($610,000 if married filing jointly) in 2024.

If this provision sunsets, individuals with business losses will generally be permitted to deduct current year losses as before and carry over a net operating loss (NOL) to certain past and future years.

Under the passive loss rules, individuals and certain other taxpayers will be limited in their ability to claim deductions and credits from passive trade and business activities, although unused deductions and credits can generally be carried forward to the next year. Similarly, certain farm losses may not be deducted in the current year, but can be carried forward to the next year.

Change in Sec. 174 Rules for Expensing Research & Development (R&D) Costs (Domestic expensing permitted 1/1/2025 to 12/31/2029 under OBBB, HR-1)

Effective for tax year 2022, TCJA changed expensing rules for R& D costs, requiring them to be capitalized and amortized over five years (domestic) or 15 years (international). The effect was to substantially undermine the R&D tax credit, which previously allowed companies to receive a tax credit equal to 100% of the value of their R&D costs each tax year. It appears there is bi-partisan support to reverse this requirement also.

Under rules established by TCJA, the R&D tax credit is limited to a % of costs companies can expense for any one year. For domestic expenses, it amounts to 20% of expenses incurred and internationally, it would be approximately 6.5%.

OTHER 2025 TAX MATTERS PRE-OBBB, H.R.-1

Notable Tax Changes for Tax Year 2025 *https://www.irs.gov/pub/irs-drop/rp-24-40.pdf*

The tax year 2025 adjustments described below generally apply to income tax returns to be filed starting tax season 2026. The tax items for tax year 2025 of greatest interest to many taxpayers include the following dollar amounts:

- Standard deductions. For single taxpayers and married individuals filing separately for tax year 2025, the standard deduction rises to $15,000 for 2025, an increase of $400 from 2024. For married couples filing jointly, the standard deduction rises to $30,000, an increase of $800 from tax year 2024. For heads of households, the standard deduction will be $22,500 for tax year 2025, an increase of $600 from the amount for tax year 2024.

- Marginal rates. For tax year 2025, the top tax rate remains 37% for individual single taxpayers with incomes greater than $626,350 ($751,600 for married couples filing jointly). The other rates are:
  - 35% for incomes over $250,525 ($501,050 for married couples filing jointly).
  - 32% for incomes over $197,300 ($394,600 for married couples filing jointly).
  - 24% for incomes over $103,350 ($206,700 for married couples filing jointly).
  - 22% for incomes over $48,475 ($96,950 for married couples filing jointly).
  - 12% for incomes over $11,925 ($23,850 for married couples filing jointly).
  - 10% for incomes $11,925 or less ($23,850 or less for married couples filing jointly).

- Alternative minimum tax exemption amounts. For tax year 2025, the exemption amount for unmarried individuals increases to $88,100 ($68,650 for married individuals filing separately) and begins to phase out at $626,350. For married couples filing jointly, the exemption amount increases to $137,000 and begins to phase out at $1,252,700.

- Earned income tax credits. For qualifying taxpayers who have three or more qualifying children, the tax year 2025 maximum Earned Income Tax Credit amount is $8,046, an increase from $7,830 for tax year 2024. The revenue procedure contains a table providing maximum EITC amount for other categories, income thresholds and phase-outs.

- Qualified transportation fringe benefit. For tax year 2025, the monthly limitation for the qualified transportation fringe benefit and the monthly limitation for qualified parking rises to $325, increasing from $315 in tax year 2024.

- Health flexible spending cafeteria plans. For the taxable years beginning in 2025, the dollar limitation for employee salary reductions for contributions to health flexible spending arrangements rises to $3,300, increasing from $3,200 in tax year 2024. For cafeteria plans that permit the carryover of unused amounts, the maximum carryover amount rises to $660, increasing from $640 in tax year 2024.

- Medical savings accounts. For tax year 2025, participants who have self-only coverage the plan must have an annual deductible that is not less than $2,850 (a $50 increase from the previous tax year), but not more than $4,300 (an increase of $150 from the previous tax year).

The maximum out-of-pocket expense amount rises to $5,700, increasing from $5,550 in tax year 2024.

For family coverage in tax year 2025, the annual deductible is not less than $5,700, increasing from $5,550 in tax year 2024; however, the deductible cannot be more than $8,550, an increase of $200 versus the limit for tax year 2024. For family coverage, the out-of-pocket expense limit is $10,500 for tax year 2025, rising from $10,200 in tax year 2024.

- Foreign earned income exclusion. For tax year 2025, the foreign earned income exclusion increases to $130,000, from $126,500 in tax year 2024.

- Estate tax credits. Estates of decedents who die during 2025 have a basic exclusion amount of $13,990,000, increased from $13,610,000 for estates of decedents who died in 2024.

- Annual exclusion for gifts increases to $19,000 for calendar year 2025, rising from $18,000 for calendar year 2024.

- Adoption credits. For tax year 2025, the maximum credit allowed for an adoption of a child with special needs is the amount of qualified adoption expenses up to $17,280, increased from $16,810 for tax year 2024.

Unchanged for tax year 2025
By statute, certain items that were indexed for inflation in the past are currently not adjusted.

- Personal exemptions for tax year 2025 remain at 0, as in tax year 2024. The elimination of the personal exemption was a provision in the Tax Cuts and Jobs Act of 2017.

- Itemized deductions. There is no limitation on itemized deductions for tax year 2025, as in tax year 2024 and preceding, to tax year 2018. The limitation on itemized deductions was eliminated by the Tax Cuts and Jobs Act of 2017.

- Lifetime learning credits. The modified adjusted gross income amount used by taxpayers to determine the reduction in the Lifetime Learning Credit provided in Sec. 25A(d)(1) of the Internal Revenue Code is not adjusted for inflation for taxable years beginning after Dec. 31, 2020. The Lifetime Learning Credit is phased out for taxpayers with modified adjusted gross income in excess of $80,000 ($160,000 for joint returns).

Executive Order Mandating Electronic Federal Tax Refunds & Payments for Taxes
Electronic Payments for Federal Tax Payments and Tax Refunds Required!
Beginning as early as September 30, 2025, the president's March 25, 2025, executive order "Modernizing Payments To and From America's Bank Account" mandates all payments ***to and from*** the US Treasury will be required to be paid electronically. This includes federal tax payments and federal tax refunds.

Timing of Electronic Tax Payments & Refund Mandate
Verbiage in the order indicates there may be a delay in implementing the order stating : *"As soon as practicable, and to the extent permitted by law,* ***all payments made to the Federal Government*** *shall be processed electronically, except as specified in section 4 of this order."*

The order also indicates all federal tax refunds shall be issued by electronic means beginning September 30, 2025.

Will There be a Transition Period?
Presumably, when the electronic tax payment requirement are implemented we may be advised all tax year 2024 payments, prior year, and 2025 estimated tax payments up to and including 4th quarter estimated tax payments due January 15, 2026 may be eligible to be paid by paper check or money order as a **transition period** for the order.

However, payments for subsequent tax years and tax payments made for 2024 and prior years after a specific date, perhaps January 15, 2026, are expected to be required to be paid electronically or be subject to penalties unless the taxpayer is eligible for one of the exceptions below.

> **Tax Practitioners' Caution: Form 1040 Filed by Oct 15 & 4th Quarter 2025 Estimated Tax**
> Challenges for tax practitioners preparing 2024 tax returns arise related to the proposed implementation date of September 30, 2025. Though we expect a transition grace period, if that does not materialize then taxpayers paying a tax balance due with Form 1040 on extension until October 15 plus taxpayers paying 4th quarter 2025 estimated tax payments after September 30, 2025, may face penalties if not paid electronically.

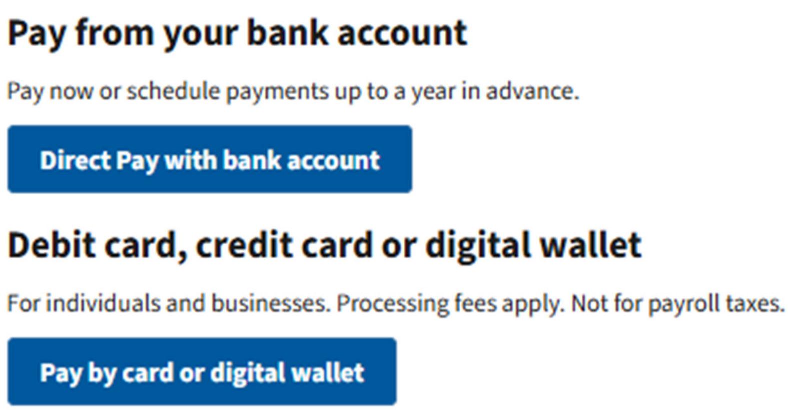
Methods For Electronic Payments
(i) direct deposits;
(ii) debit and credit card payments;

(iii) digital wallets and real-time payment systems; and
(iv) other modern electronic payment options.

Limited exceptions available
When electronic payment and collection methods are not feasible, exceptions include:
(i) individuals who do not have access to banking services or electronic payment systems;
(ii) certain emergency payments where electronic disbursement would cause undue hardship, as contemplated in 31 C.F.R. Part 208;
(iii) national security- or law enforcement-related activities where non-EFT transactions are necessary or desirable; and
(iv) other circumstances as determined by the Secretary of the Treasury, as reflected in regulations or other guidance.
(v) Individuals or entities qualifying for an exception under this section or other applicable law shall be provided alternative payment options.

IRS ONLINE PAYMENTS
PAYING 2024 FEDERAL TAXES DUE ONLINE AT IRS WEBSITE
Use this url : https://www.irs.gov/payments, to pay federal taxes online if you do not have an IRS account set up yet or an account with EFTPS (Electronic Federal Tax Payment System).

1) Select "**Pay from your bank account**" or "**Pay by card or digital wallet**", note, payments paid with credit cards may have fees, paying from your bank account will not have a fee.



2) Select **"Pay Individual Tax"**
3) Select **"Make a Payment"**
4) Under Reason for Payment select **"Balance Due"**
5) Apply Payment To **"Income Tax-Form 1040"**
6) Select Year **"2024"**
7) After "continue" you'll see **Verify Identity,**
Select tax year 2023, because you are confirming your tax filing from the previous year.

Your filing status for 2023 was
Single
Married- Filing Joint Return

Married-Filed Separate Return
Head of Household
Qualifying Widower

8) **Making 2024 Tax payment**

Your Payment Information

Please enter and confirm the payment amount below.

Select a date for your payment to be processed. The payment date selected is the date you will get credit for the payment although the payment may settle on a future date.

Payment Amount (example: 12345.00)

$

Confirm Payment Amount

$

Payment Date (within 365 days)

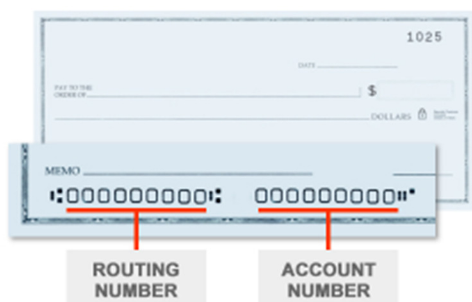
03-31-2025

Your Bank Account Information

Routing Number

Account Number

Confirm Account Number



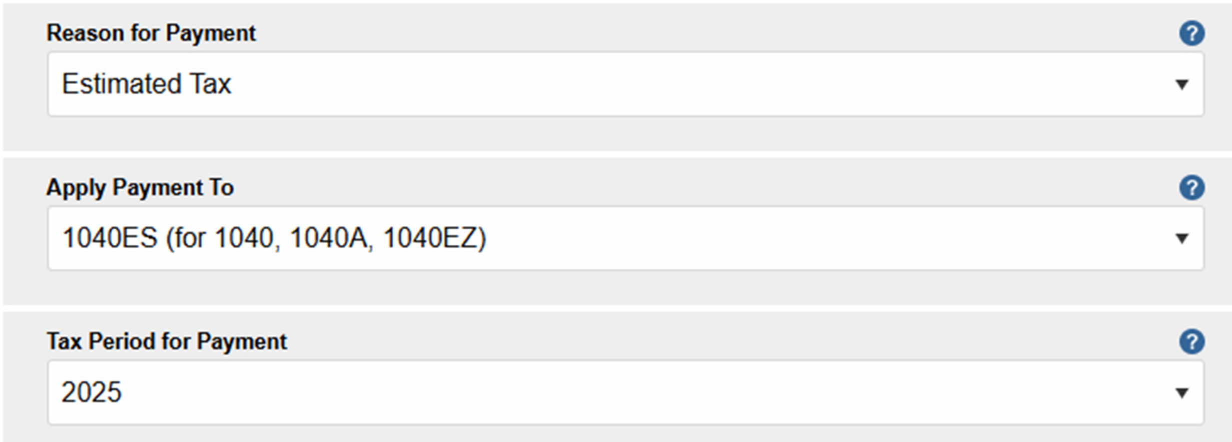
Account Type

○ Checking
○ Savings

PAYING 2025 FEDERALQUARTERLY ESTIMATED TAXES ONLINE AT IRS WEBSITE

1) **To Make Estimated Tax Payments for 2025 use this url:**
https://directpay.irs.gov/directpay/payment?execution=e1s6
2) Go through the same steps for making a 2024 Balance Due payment
3) Select the due date for each of the estimated tax payments indicated if you want to set up your future estimated tax payments in advance. Otherwise, keep track of the due

dates for your estimated tax payments and log in at least 1 day before each payment due date to pay your 2025 estimated tax payments quarterly.



Reporting Casualty Losses After TCJA
(Dates advanced under OBBB, HR-1)

- Republican tax bill, passed House May 2025, extends dates Qualified Disaster Loss
- If extension remains in final bill, applicable dates for Qualified Disaster Loss will be as follows:
  - Disaster declared no later than 60 days after enactment
  - Incident period which began on or before date of enactment *and*
  - Incident period which ends no later than 30 days from enactment

Current Challenges for Taxpayers Incurring Property Damage from a Disaster
Not only do we assume the disallowance of personal casualty losses will be extended unless the losses result from a Presidentially declared disaster, but now the current administration is actively resisting requests for disaster declarations which have occurred since inauguration day, and has been very transparent about signaling massive cuts to FEMA resources and FEMA aid to states, including the governors of states which strongly support the president publicly and including deep red states which elected the president.

Not only does the lack of aid for many impacted communities cause concern but failing to declare a disaster as a “presidentially declared disaster” also substantially reduces a taxpayer’s option to claim the losses on their tax returns. And even if Congress tries to offer relief by way of a new Federal Disaster Aid Tax Act, similar to the one passed in December 2024, the president may very likely veto the bill, therefor denying victims of serious storms or fires valuable tax deductions. See our section CALIFORNIA LOS ANGELES 2025 FIRES TAX NOTE, below. Unfortunately, many taxpayers in several other states are now subject to the same limited tax options unless relief is provided in the legislature and the president signs it.

Generally, for tax years 2018 through 2025, individuals who incur losses of personal-use property from fire, storm, flood, shipwreck, or other casualty, or theft are not able to deduct the losses unless the loss is attributable to a federally declared disaster.

However, businesses, rentals, and other income producing property are eligible for applicable business tax deductions related to theft or damage of business property or assets whether or not attributable to a federally declared disaster.

> **TAX NOTE:** Theft losses incurred by individuals in a transaction entered into for profit may still be deductible as are most Ponzi losses.

The three types of loss related to federally declared disasters are:

- Federal Casualty Loss
- Disaster Loss
- Qualified Disaster Loss

All federally declared disasters are a disaster determined by the President of the United States to warrant assistance by the federal government under the Stafford Act. Federally declared disasters include:[1]

(a) a **major disaster declaration** (FEMA letters **DR**)***, or***
(b) an **emergency declaration** (FEMA letters **EM**) under the Stafford Act.

CHART: Types of Losses Related to Federally Declared Disasters
There are three types of losses related to federally declared disasters, and each has different requirements for deducting any applicable losses. [2]

Three Types of Federal Disasters	FEDERAL CASUALTY LOSS	DISASTER LOSS	QUALIFIED DISASTER LOSS
TAXPAYERS	Individuals	Individuals, sole-proprietors, farmers, businesses, corporations, S corporations, partenrships and LLCs	Individuals
DESCRIPTION	Loss resulting from a federally declared disaster and must occur in a state receiving a federal disaster declaration.	Loss resulting from a federally declared disaster and must occur in a county eligible for public or individual assistance (or both).	Major disaster declared by President during the period between Jan. 1, 2020, and Feb. 10, 2025. *Also*, disaster must have an incident period that began on or after Dec. 28, 2019, and on or before Dec. 12, 2024, and must have ended no later than Jan. 11, 2025.
TYPE OF PREOPERTY	Personal Use Property	Personal use, investment, rental, or business property and assets	Personal Use Property
TAX TREATMENT			
CASUALTY LOSS PERMITTED	YES	YES	YES
SUBJECT TO 10% AGI LIMIT	YES	YES	NO
$ PER EVENT LIMIT	$100	$100	$500
MUST ITEMIZE TO DEDUCT	YES	YES	NO
MAY DEDUCT IN PRIOR YEAR	NO	YES	YES

[1] Pub. 547, Casualties, Disasters, and Thefts
[2] Instructions for 2024 Form 4684

1) **Federal Casualty Loss**
A ***federal casualty loss*** is an individual's casualty or theft loss of personal-use property that is attributable to a federally declared disaster. The casualty loss ***must occur in a state receiving a federal disaster declaration***. If they suffered a casualty or theft loss of personal-use property that was not attributable to a federally declared disaster, it is not a federal casualty loss, and a casualty loss deduction may not be claimed unless the exception applies.

Tax Treatment of a Federal Casualty Loss
Taxpayers who suffer a federal casualty loss are eligible to claim a casualty loss deduction.

2) **Disaster Loss**
A ***disaster loss*** is a loss that is attributable to a federally declared disaster ***and*** that ***occurs in an area eligible for assistance pursuant to the Presidential declaration***. The ***disaster loss*** must occur in a county eligible for public or individual assistance (or both). ***Disaster losses*** are not limited to individual personal-use property and may be claimed for individual business or income-producing property and by corporations, S corporations, and partnerships.

Tax Treatment of a Disaster Loss
If the taxpayer suffers a ***disaster loss***, they are eligible to:

- Claim a casualty loss deduction ***and***
- To elect to claim the loss in the preceding tax year.

3) **Qualified Disaster Losses**
A qualified disaster loss also includes an individual's casualty or theft loss of personal-use property that is attributable to:

- A major disaster declared by the President in 2016 under the Stafford Act;
- Hurricane Harvey;
- Tropical Storm Harvey;
- Hurricane Irma;
- Hurricane Maria;
- The California wildfires in 2017 and January 2018;
- A **major disaster** that was declared by the President under the Stafford Act and that occurred in 2018 and before December 21, 2019, and continued no later than January 19, 2020 (except those attributable to the California wildfires in January 2018 that received prior relief).
- A **major disaster** that was declared by the President during the period between January 1, 2020, and February 10, 2025. Also, this disaster must have an **incident period** that began on or after December 28, 2019, and on or before December 12, 2024, and must have ended no later than January 11, 2025.

Tax treatment of Qualified Disaster Losses
Taxpayers who suffer a qualified disaster loss are eligible to:

- Claim a casualty loss deduction,
- To elect to claim the loss in the preceding tax year,
- Ignore 10% AGI limit but subject to $500 per event limit ***and***
- To deduct the loss without itemizing other deductions on Form 1040, Schedule A.

CALIFORNIA LOS ANGELES COUNTY 2025 FIRES TAX NOTE:

Currently taxpayers in California's Los Angeles County who suffered losses in the January 2025 fires are only eligible for **Disaster Loss** tax treatment, not **Qualified Disaster Loss** tax treatment due to the fact that eligible deadlines extended by the Federal Taxpayer Disaster Relief Act of 2023 do not support the applicable dates for the 2025 Los Angeles County fires.

At the time this material was prepared the California Los Angeles County fire disaster **DM-4586** does not currently qualify as a **Qualified Disaster Loss** because the incident period for the LA County fires did not begin on or before December 12, 2024, nor had the period ended by January 11, 2025. However, we do expect further legislation shortly to extend the eligible dates for a **Qualified Disaster Loss**.

Until further guidance or additional legislation is enacted Los Angeles County 2025 fire victims may deduct a casualty loss and may elect to deduct it on the previous year's tax return, 2024, but the loss will be subject to the 10% AGI limitation and the deduction will only be available to taxpayers who itemize their deductions.[3]

Identifying Type of Disasters for the Purpose of Determining Eligible Tax Treatment
A FEMA disaster declaration number may begin with:

- "DR" and four numbers for a federally declared **major disaster declaration**, **or**
- "EM" and four numbers for a federally declared **emergency declaration**, ***or***
- "FM" and four numbers for a federally declared **fire management assistance grant.**

STEPS TO DETERMINE ELIGIBLE TAX TREATMENT FOR DISASTER EVENTS:

- We would look for **federally declared disasters** with beginning letters in the FEMA code of "DR" or "EM"

- **Federally declared disasters** with the beginning FEMA code of **"EM"** will generally be eligible for either the **Federal Casualty Loss** deduction or the **Disaster Loss** tax treatment, depending on the taxpayer's county of residence, or rental property, or business. And we may need to click on the FEMA link to determine if the taxpayer was in an area which was eligible to receive federal assistance. (See DR-4586, below)

- **Federally declared disasters** with the beginning FEMA code of **"DR"** may be eligible for **Qualified Disaster Loss** tax treatment so we would then look at the **"Incident Period"** indicated for an applicable event and the **date the disaster was declared** to determine if those dates meet the dates in the last bullet point of the list earlier for **Qualifying Federal Disasters**. Both the **incident period** and the **date the disaster declaration** was made are shown with the FEMA code on the FEMA website.

- We would ignore any with the code **FM**, for fire management because that designation is **not** considered a **federally declared disaster** for tax purposes**.**

[3] H.R. 5863 Federal Disaster Tax Relief Act of 2023

Increased standard deduction reporting for Qualified Disaster Losses
If the taxpayer has a net **qualified disaster loss** and isn't itemizing their deductions, they can claim an increased standard deduction using Form 1040, Schedule A

1. Enter the amount from Form 4684, line 15, on the dotted line next to line 16 on Schedule A and the description "Net Qualified Disaster Loss."

2. Also, enter on the dotted line next to line 16 of Schedule A the standard deduction amount and the description "Standard Deduction Claimed With Qualified Disaster Loss."

3. Combine these two amounts and enter the total in the entry space on line 16 of Schedule A

Schedule A with Qualifying Disaster Loss

SCHEDULE A (Form 1040) Department of the Treasury Internal Revenue Service	**Itemized Deductions** Attach to Form 1040 or 1040-SR. Go to *www.irs.gov/ScheduleA* for instructions and the latest information. **Caution:** If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 16.		OMB No. 1545-0074 2024 Attachment Sequence No. 07
Name(s) shown on Form 1040 or 1040-SR			Your social security number
Casualty and Theft Losses	**15** Casualty and theft loss(es) from a federally declared disaster (other than net qualified disaster losses). Attach Form 4684 and enter the amount from line 18 of that form. See instructions . . .	**15**	
Other Itemized Deductions	**16** Other—from list in instructions. List type and amount: Net Qualified Disaster Loss $8,945; Standard deduction claimed with Qualified Disaster Loss $14,600	**16**	23,545
Total Itemized Deductions	**17** Add the amounts in the far right column for lines 4 through 16. Also, enter this amount on Form 1040 or 1040-SR, line 12 . . .	**17**	23,545
	18 If you elect to itemize deductions even though they are less than your standard deduction, check this box . . . ☐		

For Paperwork Reduction Act Notice, see the Instructions for Form 1040. Cat. No. 17145C **Schedule A (Form 1040) 2024**

Disaster Year for Reporting Purposes
The disaster year is the latter of:

- Tax year in which the loss attributable to a federally declared disaster was sustained ***or***
- Tax year in which it is determined that no further claim for reimbursement exists

For example, if a claim for reimbursement exists for which there is a reasonable prospect of recovery, no part of the loss for which reimbursement may be received is sustained until it can be ascertained with reasonable certainty whether the taxpayer will be reimbursed.

EXAMPLE: Disaster Year Considered to be Year of Final Reimbursement
In December 2023, the taxpayer's vehicle was destroyed in severe flooding that occurred in the area where they live. The area was designated by FEMA to be eligible for public or individual assistance (or both). They immediately filed a claim for reimbursement with their insurance company. There was a reasonable prospect that they would recover the full amount of the loss. The claim was settled in January 2024 when the insurance company reimbursed only half of the loss. The **disaster year** is 2024 (not 2023 when the loss occurred). The loss was considered sustained in 2024 because that's when it became reasonably certain whether they would be reimbursed.

The taxpayer may either deduct the unreimbursed loss on their tax return for the **disaster year** (2024) or make an election to deduct the unreimbursed loss on their tax return for the **preceding year** (2023).

Claim the Loss in the Year of Loss or the Preceding Tax Year
Both an eligible **Disaster Loss** and a **Qualifying Disaster Loss** permit an election for the taxpayer to choose to claim the loss on either the return for the year the loss occurred (for 2025 disasters, the 2025 return normally filed next year), or the return for the prior year (the 2024 return filed in 2025). For individual taxpayers, the deadline for making this election for a 2025 loss is Oct. 15, 2026. (See the section on **Tax Year of Loss**, earlier in the material.) Taxpayers who incur or determine the applicable amount of a 2025 Disaster Loss or a Qualified Disaster Loss after filing their 2024 taxes may elect to deduct that loss on their amended 2024 return for the tax year **immediately preceding** the disaster year. If this election is made, the loss is treated as having occurred in the preceding year.

This election may be made on Form 4684 Casualties and Thefts, Section D. This election should be attached to an original return or amended return for the preceding year. The election to claim the disaster loss in the preceding year must be made on or before the date that is 6 months after the regular due date for filing the original return (without extensions) for the disaster year. See Publication 547 for more information.

If a taxpayer chooses to deduct a disaster loss sustained in the disaster year on an original or on an amended return for the preceding year, the taxpayer must report all related losses that qualify for the election on the preceding year return. Splitting the deductions between years is not permitted.