

Hello fellow taxpayers,

January 12, 2025

Happy New Year to all of you!

Unfortunately we witness, from a distance, several devastating fire outbreaks in Southern California. The scars of the Tubbs fire and subsequent fires in our area are less visible as time goes on, however, the emotional reaction is ever present.

The IRS will be open for business on 1/27/2025.

The IRS has adjusted the tax brackets for 2025 to reflect inflation.

### **FUTURE of the Tax Cuts and Jobs Act (TCJA).**

At the end of 2025, a sizable portion of the TCJA is set to expire. While uncertainty remains, Republicans favor a broad extension of the sunseting provisions. Here are some of Trump's policy proposals:

- Extension of the Qualified Business Income (QBI) deduction. The 20% deduction for certain QBI is currently set to expire at the end of 2025.
- Reinstate the 100% bonus depreciation. The bonus depreciation has been decreasing over the past years and is 40% for 2025 and will be fully phased out starting 1/1/2027.
- Individual income tax rates (10%,12%, 22%, 24%, 32%, 35%, 37%) will expire at the end of 2025 and revert to higher pre TCJA rates of 10%, 15%, 25%, 28%, 33% 35% and 39.6%, unless made permanent.
- Unless Congress acts, the lifetime gift and estate tax exemption will take a drastic drop in 2026, reverting to near 2017 levels of \$7 million. Unless it is changed with legislation, the 40% rate is permanent. Trump has proposed to extend the TCJA exemption amount increase and maintain the 40% rate.
- Trump has also proposed to eliminate the \$10,000 cap on state and local deductions (SALT) that was enacted with the passage of TCJA. If eliminated, it would allow more tax clients to itemize deductions, thus lower their taxable income.

### **Other campaign promises:**

- Eliminate taxes on Social Security Income. This would require at least 60 Senate votes. Too soon to factor in when doing financial planning.
- No taxes on tips. No details available.

**For the working people:**

The threshold for social security taxes/medicare taxes is increasing from \$168,600 to \$176,100 for the year 2025.

**401k and Roth IRA Changes**

Contribution limit is \$23,500, catch-up provision for 50 and older: \$7,500. Higher catchup contribution limits to investors aged 60-63. This higher catch-up contribution limit is \$11,250.

For Roth IRA contributions in 2025, the income phase-out range increases to \$165,000 for singles and \$246,000 for MFJ.

**2025 Earnings limits when drawing social security:**

- At full retirement: no limit on earnings
  - Under full retirement: \$23,400. For every \$2 over the limit, \$1 is withheld from benefits.
  - In the year you reach full retirement: \$62,160. For every \$3 over the limit, \$1 is withheld from benefits until the month you reach full retirement age.
- If you plan to retire in 2025 or 2026 and have any questions regarding those limits and how to calculate potential reductions, please check in with me.

**2025 Medicare Income-Related Monthly Adjustment Amount (IRMAA):**

This is a premium that is added monthly to the basic Medicare Part B and Part D premiums for higher-income retirees. Basic premiums are \$185.00 per month for Part B and \$46.50 for Part D if your income is below the threshold for IRMAA. Medicare refers to the most current filed tax returns to make those adjustments on an annual basis. Based on the Modified Adjusted Gross Income (MAGI) the brackets for 2025 are as follows:

Single – MAGI	Married Filing Jointly -MAGI	Amount of Increase to Part B per month	Amount of increase to Part D per month
\$106K-\$133K	\$212K-\$266K	\$74.00	\$13.70
\$133K-\$167K	\$266K-\$334K	\$185.00	\$35.30
\$167K-\$200K	\$334K-\$400K	\$259.90	\$57.00
\$200K-\$500K	\$400K-\$750K	\$406.90	\$78.60
Above \$500K	Above \$750K	\$443.90	\$85.80

If you have some life altering changes, one-time adjustments to income, meaning a non-recurring situation (sale of a house, rental, etc.) you may be able to get those premiums waived or reduced.

**Tax season is prime time for phone scams and email scams.** Keep in mind that:

- The IRS will never call to demand immediate payment using specific payment methods.
- The IRS will never threaten to immediately bring in local police or have taxpayers arrested for not paying.
- The IRS will not come to your door unannounced. They contact taxpayers through an appointment letter, known as a 725-B letter and schedule an appointment.

**Some of the new scams that are reported:**

- Social media circulates inaccurate or misleading information encouraging people to submit false, inaccurate information in hopes of getting a refund or credit, such as Employee Retention Credit.
- Online account help from third-party scammers, offering to create a taxpayer's IRS online account. Taxpayers should access their account directly through IRS.gov.
- Offer in Compromise. OIC is an important program to help people who can't pay to settle their federal tax debts for less than the full amount owed. Who has not heard radio ads, seen TV ads from companies offer to settle for pennies on the dollar? OIC mills make exaggerated claims and often charge excessive fees. Taxpayers can check their eligibility for free with the IRS Offer in Compromise Pre-Qualification tool. Go to IRS.gov website and check it out.

If you get suspicious calls, hang up immediately. You may report the call to TIGTA (Treasury Inspector General for Tax Administration) using the IRS Impersonation Scam Reporting form or by calling 800-366-4484. You can also go to [phishing@irs.gov](mailto:phishing@irs.gov) and put IRS Phone Scam in subject line. You can also go on the official IRS website for more information: [IRS.gov/newsroom/tax-scamsconsumer-alerts](https://www.irs.gov/newsroom/tax-scamsconsumer-alerts).

### **1099-K for PayPal, Venmo and other third-party network pay systems**

The reporting requirement for third party pay systems has been delayed for a few years and for 2024, the IRS has set the reporting threshold at \$5,000. **If you have**

a business, keep track of the payments that are non-business so that you can deduct those from income. In an audit situation you will be asked to show proof of non-taxable income.

### **How to avoid paper audits:**

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"My accountant advised me to donate my three wishes to charity and take the write-off."

Most audits are letter audits, with the IRS questioning missing income or over-reported estimated payments. It is especially important that you provide all the forms 1099 information that you receive. This is one area where the IRS gets copies and will match what is reported. Discrepancies such as missing dividends, or stock sales will result in getting such a letter. With more companies asking you to sign up for paperless statements, the burden is on you to print out those year-end statements. I will do my best to compare current-year information to the prior year to avoid missing potential income, but I cannot know if you have new accounts. Keep a checklist in your tax folder to print out those documents.

### **Itemized deductions**

No changes to prior-year rules. If you are not sure whether you can or cannot itemize, bring along all the paperwork that will help determine that outcome.

### **Standard deductions, exemptions, and other changes**

The standard deduction has increased to \$30,000 for MFJ or \$15,000 for Singles. Taxpayers 65 and older will get an additional \$1,550 added to their base deduction.

### **Child Tax Credit**

is \$2,000 with a refundable amount of \$1,700, for tax filers that do not have any tax liabilities.

### **Maximum earned income credit**

In 2024 that amount is \$7,830 and in 2025 will increase to \$8,046. Maximum amount is based on three or more qualifying children. All returns that I prepare will automatically be checked for eligibility of this credit.

### **Energy Related Tax Credits**

Call me if you have questions regarding potential energy credits. Remember, salespeople are interested in making a sale. They don't know your tax bracket or your income to determine if you qualify for a credit or not.

### **Amended Returns**

Amended returns will take up to 3 weeks to be in IRS's system (maybe a bit faster if electronically filed). Processing can take up to 16 weeks. To check on an amended return: go to IRS.gov website and look for "Check your Amended Return Status". You will need your social security number, date of birth and zip code to search.

### **Medical Expenses**

If you can itemize on your return, you can deduct medical/dental expenses in excess of 7.5% of adjusted gross income. This includes Medicare premiums paid, long-term care insurance, other third party insurances and nursing care expenses as well as drugs, medical equipment and co-pays.

### **Estate Tax Exemption:**

For 2025 Beneficiaries will be able to exclude \$13.99 Million of the decedent's estate. This amount will revert to prior years if not made permanent. See page 1, under "Future ..."

### **Charitable Contributions from your RMDs:**

Charitable Contributions of your RMD's can be made directly through your investment advisor. Please note that this does not apply to inherited IRAs.

## CALIFORNIA Tax Changes:

**Higher taxes on paychecks:** California workers will have more money withheld from their paychecks starting in 2025, thanks to CA Senate Bill 951 (2022). Earners with \$100,000 in taxable annual wages will have \$100 more total withheld from their paycheck. This bill will remove the wage cap on income subject to CA State Disability (SDI) tax to cover increased Family Leave for more workers.

**All businesses (including small businesses) will be forced to pay an extra \$21 per employee on their payroll taxes in 2025.** CA lost \$33 billion in unemployment fraud during the pandemic. To cover costs, the state borrowed \$20 billion from the federal government. However, instead of using the surplus to pay down the debt in 2022 they spent the surplus. Now they pass the debt on to all the businesses. Unfortunately, this is another classic case of mismanagement by our elected officials.

**FOR my OUT OF STATE tax clients** (who are all ex-patriots from Sonoma County), I will provide you with some additional updates based on your state.

### **What documents do you need to collect and provide to me?**

- W-2
- 1099 form for interest and dividends, capital gains and non-employee income. **With many people going paperless, it is especially important that you download the respective tax forms, so that you do not forget to include taxable income. Don't sign up for paperless if you have the choice.**
- 1098 form for mortgage interest
- Social Security Statement
- Property tax statements
- 1095-A Health Insurance Market Place Statement for IRS and State. If you are enrolled in Covered CA, with or without subsidies, tax returns cannot be efiled without that information. If you have dependents that are also on Covered CA, the entire household income will need to be considered.
- Summary of medical expenses if you can itemize: That would include de premiums paid, out of pocket expenses, nursing facility costs, glasses, etc. If not sure what accounts, bring it along.
- Profit and loss statements for your business, such as Schedule C, Schedule E (Rental), Schedule F (Farming)

- NEW TAX CLIENTS ONLY: bring a copy of your previous tax return.

### **Forms 1099s, 1098s that you need to issue**

If you want me to prepare 1099s for misc. income or 1099NEC for independent contractors you paid for, 1098's for interest you paid to a private mortgage holder, please provide me with the following information:

Name, Address and Social Security or Tax Id number of the payee and the Amount paid.

Property address for mortgage interest and year-end principal balance.

### **How to get the information to me:**

- Mail to: Just Taxes, 136 Vinecrest Circle, Windsor, CA 95492.
- Electronically: I encourage you to use my link to Dropbox.com to upload your documents securely. If you do not yet have a link from a prior year, please request one. You do not have to purchase the program.
- If you have your own program to securely send me your documents, please provide me with the necessary link.
- Drop off at the secured lockbox adjacent to my front door.
- Make an in-person appointment. Day, evening and weekend appointments available, to fit your schedule.

**As always, if you have any questions, please call or email me.**

### **REFERRAL Fees:**

I am accepting new clients. Have your friends/family/co-workers pay for your return by referring them to me. Referral fee is up to \$50 for every referral that becomes a new client in 2025.

I am looking forward to seeing or hearing from you this upcoming tax season.

*Doris Kanewski*

Just Taxes

136 Vinecrest Circle

Windsor, CA 95492

707-291-4135 (cell phone)

99999dkanewski@yahoo.com