Koch CPA, Chartered

WINTER 2025 INCOME TAX PLANNING NEWSLETTER

Each winter we provide you with information outlining new income tax developments and important information to aid you with your year-end income tax planning. We hope you find this information helpful as you look to reduce your 2025 and 2026 income tax liability. The following are several items which we think are important for our clients.

New Website
Last January, we launched a new website for the firm. You can find the website at KochCPA.com. The biggest feature of the site is the secure upload feature, which allows you to upload tax documents or other files when it is most convenient for you. The site also contains helpful tax and payroll resources.

Tax Code Changes Due to the One Big Beautiful Bill Act
The One Big Beautiful Bill Act (OBBBA) was signed into law on July 4, 2025, bringing many changes to the tax code for 2025 and beyond. Many of these changes are discussed in this section, with more discussed throughout the rest of this letter.

There are 3 new above-the-line tax deductions starting in 2025 and running through 2028. These deductions are available to taxpayers regardless of whether they itemize or take the standard deduction. If you plan to take any/all of these, diligent record keeping is very important to justify the deduction.

The first is the Qualified Tips Deduction. This deduction is for employees and self-employed taxpayers, allowing a deduction up to $25,000 of qualified tips received. Taxpayers must work in a business where tips are earned, as defined by the IRS.

The second is the Qualified Overtime Deduction. This deduction applies to overtime compensation received in excess of the employee's regular rate of pay. The overtime must be required by the Fair Labor and Standards Act, so farm employee overtime does not qualify. The maximum deduction is $12,500 of overtime pay per individual.

The third deduction is the Car Loan Interest Deduction. Taxpayers are allowed a deduction of up to $10,000 of interest paid on qualified car loans during the year. Qualified car loans must be taken out to purchase a qualifying passenger vehicle, must be the first lean, and must be taken out after December 31, 2024. Qualified passenger vehicles are new vehicles with a GVWR under 14,000 pounds and a final assembly location in the United States.

Other changes made by OBBBA include:

- The Qualified Business Income Deduction was made a permanent part of the tax code.
- The Federal Estate Tax Exemption has been permanently increased. In 2025, the Estate Tax Exemption is $13.99 million per individual. In 2026, the Exemption will be $15 million per individual. The 2025 annual gift tax exclusion limit is $19,000 per recipient.
- The Child Tax Credit was increased to a maximum of $2,200 for 2025, with a maximum refundable portion of $1,700. This credit will now be indexed for inflation in 2026 and beyond.
- The State and Local Tax (SALT) Deduction Cap was temporarily increased to $40,000 for 2025 for both single and married taxpayers filing jointly, which may lead to more taxpayers electing to itemized their deductions. This cap will be in place and increase by 1% annually through 2029, after which it will revert to the $10,000 limit. The OBBBA does NOT change the ability of certain pass-through entities to deduct SALT paid at the entity level.

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"Trump" Accounts
The OBBBA created a new form of tax-advantaged IRA for children, called Trump accounts, to encourage long-term savings. To qualify to create an account, individuals must be under the age of 18 and have a Social Security number. The government cannot automatically enroll children for these accounts, an election must be made by individual, such as a parent/guardian. To establish a Trump account, you can go to trumpaccounts.gov or file IRS Form 4547, once published. When opened, the account will be held with the US Treasury, but will eventually be able to be transferred to your preferred brokerage firm.

Contributions can be made after July 4, 2026. A $1,000 government-funded deposit will be made into Trump accounts for children born between January 1, 2025 and December 31, 2028. Private donations are also expected to fund deposits into certain Trump accounts established for children born outside of this timeframe. Individuals can make after-tax contributions of up to $5,000 per year prior to the child's 18h birthday. Employers can make contributions of up to $2,500 per year to Trump accounts of employees or their employee's dependents as part of a separate written plan of an employer. These employer contributions are <u>deductible to the employer</u> and <u>excluded</u> from the employee's gross income.

There are typically no withdrawals permitted from a Trump account until the beneficiary reaches the age of 18. After reaching 18, certain withdrawals are <u>tax-free</u> up to certain dollar limits, depending on the purpose. These include first-time home purchase, education expenses, adoption or childbirth, and qualified emergency expenses. After reaching age 60, tax-free withdrawals can be taken for retirement.

Residual (Excess) Soil Fertility Deduction
Recently, Excess Soil Fertility tax deductions have been a very hot topic amongst farmers. To take this deduction, you are required by the tax code to be "engaged in the business of farming." This includes share-crop landlords, but excludes cash-rent landlords. Additionally, if a farmer purchases a farm they had previously been renting, they do not qualify to take this deduction because they already deducted the cost of the fertilizer applied to the land. The deduction is typically taken over a 3-year period, but depends largely on the type and amount of nutrients present in the agronomist's report.

To qualify and support the deduction, land-owners must be able to <u>establish the presence and extent of excess fertility</u>. This typically requires a formal agronomist's report to document fertility on the purchased/inherited land, and a comparison of it to typical local base levels to establish excess amounts. It is possible to recreate fertility levels in previous years if you have kept detailed records, but it is best to get this report as close to purchase/inheritance of land as possible. Any deduction taken by the land-owner would likely need to be recaptured upon sale of the farm, unless the land-owner dies before the farm is sold. There is also a "reasonability" component of this deduction as well, based on the amount of calculated deduction compared to the total value of the land purchased/inherited.

If you are considering buying, or have recently bought, a farm and think this deduction is applicable, please call us to discuss your situation and determine if this deduction is right for you. Presently, there is limited IRS guidance on this issue, but with the rapid increase in popularity, we are expecting more IRS guidance, and possible court rulings, to come out during the coming year. There are some wild potential deduction figures being discussed in this area, but many of these are simply not reasonable when you review the details. So, while this is a viable potential deduction, we encourage a conservative approach.

Section 179 and Bonus Depreciation
For 2025, Section 179 of the Internal Revenue Code allows you to write off up to $2,500,000 of new or used equipment purchases within your business. This limit phases out once you purchase more than $4,000,000 worth of equipment purchases.

You will be able to utilize bonus depreciation to write off 100% of the cost of new or used machinery, equipment, and <u>farm buildings</u> (which are ineligible for section 179) that were acquired and placed into service after January 19, 2025. The amount of bonus depreciation you can utilize is not limited in dollar amount like Section 179 depreciation. You can always make an election to opt out of bonus depreciation. The 100% bonus depreciation deduction was made permanent with the passing of The One, Big, Beautiful Bill in July 2025.

Individual Federal Tax Brackets and Standard Deductions
The following chart details the new individual income tax brackets and rates for 2025.

INCOME TAX BRACKETS

Single Taxpayers			**Married Filing Jointly**		
Tax bracket		Taxable income	Tax bracket		Taxable income
10%	Less than	$ 11,925	10%	Less than	$ 23,850
12%	11,926 to	48,475	12%	23,851 to	96,950
22%	48,476 to	103,350	22%	96,951 to	206,700
24%	103,351 to	197,300	24%	206,701 to	394,600
32%	197,301 to	250,525	32%	394,601 to	501,050
35%	250,526 to	626,350	35%	501,051 to	751,600
37%	More than	626,350	37%	More than	751,600

For married filing jointly taxpayers the standard deduction is $31,500 and for single taxpayers it is $15,750. You may add $1,600 per person to that figure if you are over 65 or blind and married, or $2,000 if you are over 65 or blind and single.

Individuals over 65 years of age are allowed an additional $6,000 deduction ($12,000 for married couples, if both individuals are over 65). This deduction is phased-out when modified adjusted gross income exceeds $75,000 for single taxpayers, or $150,000 for married filing jointly taxpayers.

Kansas Tax Rates
For 2025, individuals will see the following rates.

INCOME TAX BRACKETS

Single Taxpayers		**Married Filing Jointly**	
Taxable Income	Tax Rate	Taxable Income	Tax Rate
$0 - $23,000	5.20%	$0 - $46,000	5.20%
$23,001 and over	5.58%	$46,001 and over	5.58%

The Kansas standard deduction is $3,605 for single taxpayers and $8,240 for married couples filing jointly. Kansas also allows personal exemptions: $9,160 for single taxpayers, $18,320 for married couples filing jointly, and $2,320 for each dependent listed on the return. You may add $700 per person to that figure if you are over 65 or blind and married, or $850 if you are over 65 or blind and single.

Beginning with tax year 2025, Kansas is allowing an “unborn child” personal exemption. In the year a new child is born, taxpayers will get an extra “unborn child” exemption, in addition to the exemption for a new dependent on the return. If the child is a stillbirth, taxpayers are allowed the “unborn child” exemption in the year the stillbirth occurs.

Looming 2026 Tax Changes
There are some key tax provisions that are set to expire or take effect at the end of 2025, provided Congress does not take action to alter them. These include the following:

- Meals provided on the employer’s premises for the employer’s convenience will no longer be deductible. Meals directly connected to the conduct of business and provided to employees, clients, suppliers, etc. will still be 50% deductible.
- The Work Opportunity Tax Credit is set to expire on December 31, 2025.
- Beginning in tax year 2026, an above-the-line deduction for cash donations to charity will be allowed for taxpayers who do not itemize their deductions. The deduction is limited to $1,000 for single filers and $2,000 for married couples filing jointly.

As of September 30, 2025, the IRS will no longer be issuing paper refund checks, with very limited exceptions. For most of our clients, we are already filing returns requesting refunds via direct deposit. For anyone not using direct deposit already, we will request banking information from you when we prepare your tax return. In addition, the IRS is going to quit accepting paper checks as a form of payment, and so we encourage you to begin using electronic payment methods.

Reminders

We will not be able to schedule appointments between March 25 and April 15 to gather tax information. If you do not have your tax information in to our office prior to March 25, you can drop off or mail the information to us, but we cannot guarantee that we will have your tax return completed by April 15, and we will likely recommend that we assist you in preparing an extension of time to file your tax returns.

As many of you know, individual income tax returns can be extended from their normal due date of April 15 to October 15. Over the last few years, we have seen an increase in clients waiting until late September or early October to provide us with their tax information to prepare their individual income tax returns. This influx of late work has put a strain on our capacity during this time. Due to this we expect a significant increase in fees for work performed between September 15 and October 15, 2026. You can avoid this significant increase by providing your information well in advance of this time frame.

Summary

This is the time of year to take a hard look at your specific income tax situation to determine if there are ways in which you can reduce your income and self-employment tax costs. Please let us know if we can assist you in that process, or if you have any further questions on the material discussed above.