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MIERENDORF
CPAs

December 10, 2025

Dear 1040 Clients:

As the year winds down, the tax reporting forms begin to arrive and we want to remind you which ones we need you to accumulate and send to us with your tax information. The new Tax Bill this year means we will be applying the new deductions for seniors, tips, overtime and car loans where we can. If you are a W-2 employee, make sure to provide us with any attachments to your W-2 this year so that we don't miss the tip or overtime deduction!

We still need the annual information forms that are sent to you for tax purposes from banks, credit unions, etc. And we **strongly** request you complete our organizer. As a reminder, here is a simple checklist:

__ W-2 for wages __ W-2G for gambling __ 1099-Int for interest
__ 1099-DIV for dividends __ 1099-B Brokerage __ SSA-1099 Social Security
__ 1099-NEC for income __ 1099-Misc for income __1099-K for income
__ 1099-R for retirement __ 1099-G for refunds & unemployment
__ 1099-Int for mortgages __ 1098-T for tuition __ 1099-SA for HSA's
__ K-1 forms from investments in S corporations or partnerships
__ Form 5498 for IRA values __ IRA and Roth IRA contributions for 2025
__ Child care costs, and the name, address, amount and ID # of the recipient
__ Charitable donations-total amounts and recipients
__ Property tax paid on your home, property or cars
__ Estimated tax payments and dates
__ Any letters you received from the IRS or state tax authorities
__ Our engagement letter

If you have a small business or rental property we can provide you with a separate checklist for those activities if needed.

Again, crypto-currency activity continues to increase, and we need to report any crypto activity, please be sure to provide us with that information.

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New credits for home improvements end this year and can provide you with tremendous tax benefits. If you installed a new furnace, A/C, boiler, heat pump, water heater, woodstove, windows, doors, insulation, solar or battery storage please be sure to provide us with a copy of the invoice.

Similarly, if you bought a new electric or hybrid car in 2025 please be sure to provide that invoice copy and dealer paperwork as well.

We have included a summary of **the numerous changes** that affect individual taxation based on the news laws. Navigating these changes can be complex, and their impact on your specific tax situation will vary.
We encourage you to review this list, which highlights some of the key provisions

- **Increased Standard Deduction:** The standard deduction has been increased for 2025 and beyond. For 2025, the amounts are $31,500 for joint filers and surviving spouses, $23,625 for heads of household, and $15,750 for singles and marrieds filing separately. These amounts will be adjusted for inflation after 2025. Because these higher amounts mean fewer taxpayers will benefit from itemizing, consider bunching itemized deductions into a single year to exceed the standard deduction, then take the standard deduction in alternate years.
- **Child Tax Credit:** The child tax credit (CTC) has been made permanent and increased to $2,200 per qualifying child for 2025. This amount will be adjusted for inflation after 2025. However, no credit is allowed unless the taxpayer includes a social security number (SSN) for both the qualifying child and the taxpayer (or for at least one spouse in the case of a joint return).
- **Child and Dependent Care Credit:** The child and dependent care credit will become more valuable for many families starting in 2026. The maximum credit rate will increase to 50% of eligible expenses, up to $3,000 for one qualifying individual or $6,000 for two or more. The full 50% rate will apply to families with adjusted gross income (AGI) up to $15,000 and gradually phase down to 35% for AGI up to $75,000 ($150,000 for joint filers). The credit rate is further phased down to 20% for AGI up to $105,000 ($210,000 for joint filers). To maximize your benefit, keep thorough records of all qualifying expenses and coordinate with any employer-provided dependent care benefits to avoid missing out on the full credit potential.
- **Adoption Credit:** Starting in 2025, the adoption credit is enhanced to include a refundable portion of up to $5,000 per child (indexed for inflation). This means eligible taxpayers can receive up to $5,000 as a refund even if they owe no tax, making the credit more valuable for lower-income families. To maximize this benefit, keep detailed records of all qualified adoption expenses, ensure you have a taxpayer identification number for the child, and file Form 8839 in the year the adoption is finalized.
- **American Opportunity and Lifetime Learning Credits:** Starting in 2026, you must include your SSN on the return when claiming these education credits. If

you are claiming the credit for a student other than you or your spouse, you must also include the student's name and SSN. An SSN for these purposes means one that is valid for employment and was issued before the due date of the return. When claiming the American Opportunity Credit, you must include the employer identification number (EIN) only for institutions to which you paid qualified tuition and related expenses for which the credit is claimed. To avoid losing these valuable credits, make sure all SSNs are issued before the tax return deadline and that you have the EIN for each institution. Double-check that these numbers are entered correctly on your return, as missing or incorrect information will result in IRS denying the credit.

- **Deduction for Taxpayers Age 65 or Older:** For tax years 2025–2028, individuals age 65 or older can claim a new $6,000 senior deduction. The deduction is available to both itemizers and non-itemizers. Married taxpayers must file a joint return to claim this deduction. Both spouses on a joint return can claim the deduction if they qualify. The deduction is reduced by 6% of any excess of the taxpayer's modified adjusted gross income (MAGI) above $75,000 (single) or $150,000 (joint). To maximize this benefit, seniors should aim to keep their MAGI below those amounts. Be sure to include the correct SSN for each qualifying individual to avoid disallowance of the deduction.
- **Individual SALT Limitation:** The state and local tax (SALT) deduction cap is temporarily increased to $40,000 for 2025 ($40,400 in 2026, with 1% annual increases through 2029), before reverting to $10,000 in 2030. For those with MAGI above $500,000 in 2025, the deduction phases out by 30% of the excess over the threshold, but will not drop below $10,000. Managing income and deductions to stay below the phaseout threshold, or timing large transactions to occur in years with a higher cap, can help maximize your tax benefit during this limited window.
- **Car Loan Interest Deduction:** For tax years 2025–2028, individuals can deduct up to $10,000 per year in interest paid on loans for new personal-use vehicles even if they don't itemize deductions. The deduction phases out for single filers with MAGI over $100,000 and joint filers over $200,000. To qualify, the loan must be for a new, U.S.-assembled car, SUV, van, pickup, or motorcycle (under 14,000 pounds), secured by a first lien, with the taxpayer as the original owner, and the vehicle's VIN reported on the tax return. If you're planning to buy a new vehicle, consider timing your purchase and loan to maximize deductible interest within the eligible years, and manage your income to stay below the phase-out thresholds for the largest benefit.
- **Deduction for Qualified Residence Interest:** The deduction for mortgage interest on home acquisition debt is now permanently capped at $750,000 ($375,000 if married filing separately), rather than increasing to $1 million in 2026 as previously scheduled. If you are considering buying a home, refinancing, or taking out a new mortgage, be aware that interest on debt above $750,000 will not be deductible.
- **Wagering Losses:** Starting in 2026, only 90% of your wagering losses can be deducted against your winnings, even if your losses equal or exceed your

winnings. To maximize your deductions, consider realizing wagering losses in 2025 before the new rule takes effect, and keep detailed records of all activity.

- **Miscellaneous Itemized Deductions; Educator Expenses:** The Act permanently eliminates miscellaneous itemized deductions for individual taxpayers. Thus, formerly deductible items such as unreimbursed employee business expenses, investment expenses, and tax determination expenses are permanently disallowed. However, starting in 2026, the Act adds a new educator expense deduction that will allow K–12 teachers, counselors, coaches, and aides who work at least 900 hours per year to deduct unreimbursed classroom expenses, such as books, supplies, and equipment. This new deduction won't be classified as a miscellaneous itemized deduction.
- **No Tax on Tips:** Effective for 2025 through 2028, employees and self-employed individuals may deduct qualified tips received in occupations listed by the IRS as customarily and regularly receiving tips on or before December 31, 2025, and that are reported on a Form W2, Form 1099, or other specified statement furnished to the individual or reported directly by the individual on Form 4137 "Qualified tips" are voluntary cash or charged tips received from customers or through tip sharing. Maximum annual deduction is $25,000; for self-employed, deduction may not exceed individual's net income (without regard to this deduction) from the trade or business in which the tips were earned.
  Deduction phases out for taxpayers with modified adjusted gross income over $150,000 ($300,000 for joint filers)
- **No Tax on Overtime:** Effective for 2025 through 2028, individuals who receive qualified overtime compensation may deduct the pay that exceeds their regular rate of pay (such as the "half" portion of "time-and-a-half" compensation) that is required by the Fair Labor Standards Act (FLSA) and reported on a Form W-2, Form 1099, or other specified statement furnished to the individual.
  Maximum annual deduction is $12,500 ($25,000 for joint filers).Deduction phases out for taxpayers with modified adjusted gross income over $150,000 ($300,000 for joint filers). Employers and other payors are required to file information returns with the IRS (or SSA) and furnish statements to taxpayers showing the total amount of qualified overtime compensation paid during the year.
- **Postsecondary Expenses for 529 Accounts:** 529 plan distributions can now be used tax-free for a wider range of education expenses, including not only college costs but also "qualified postsecondary credentialing expenses." This means you can use 529 funds for tuition, fees, books, supplies, and equipment required for enrollment in recognized certificate, licensing, or apprenticeship programs even if they are not traditional degree programs.
- **ABLE Accounts:** The Act permanently provides for additional contributions to Achieving a Better Life Experience (ABLE) accounts for employed individuals with disabilities. It also adjusts the base limit amount by one year for inflation.
  The Act also permanently allows beneficiaries who make qualified contributions to their ABLE account to qualify for the Saver's Credit. To maximize tax benefits, ensure the designated beneficiary personally makes contributions by year-end to qualify for the Saver's Credit, which is now permanently available for ABLE contributions and will increase to a maximum of $2,100 starting in 2027.

- **Estate & Gift Tax Exclusion Amount:** The basic exclusion amount for federal estate and gift tax will increase to $15 million (indexed for inflation) for estates of decedents dying and gifts made after Dec. 31, 2025. Review and update estate plans and consider making large lifetime gifts to take advantage of this higher exclusion.

Per IRS best practices, Mierendorf & Co PC's record retention policy is 7 years. This includes printed and electronic files

Every year we are reminded how much we value your business, and we want to once again say thank you. Please call us with any questions.

Sincerely,

Mierendorf & Company PC