

The Rudolph Report

www.rudolphcpa.com Winter meetings 2025

To all our clients:

In July Congress passed numerous tax changes in the Big Bamboozling Bill. In under 1,000 words, I will try to break that down for you. But first, Sports.

The Cubs had a great year. With high expectations in '26, what could go wrong? It looks like our GM is fishing for relievers and a witch doctor to curse the Dodgers. Meanwhile grins galore, gloating a Mets collapse at year end and an anemic Cardinals ball club destined towards mediocrity. There is a god.

Karen, Arturo, Charlie, Jazmin, Sneezy, Blitzen, and Rudolph are all looking forward to serving you again this season. We are also excited to welcome a new batch of stupendous interns from the accounting departments at CLC and Faber College. Please know how grateful we are to serve as your CPA.

Many of you successfully adapted to our drop off service or portal. We love paper. If you are local, please stop by and trade documents for candy. You'll get the better half of the deal.

In this newsletter, I will try to hit the major tax changes that affect you (this includes those of you who captain whaling ships). If you need to discuss anything specifically, please reach out. Please pay attention to the changes in SALT, overtime, tips, and social security. As a reminder, you can always contact us for a free review of withholding if you change jobs houses, or spouses (or a house with a mouse for a spouse with a louse).

Chris Rudolph CPA

NO TAX ON TIPS & 1/3 OF OVERTIME

Up to \$25,000 in tips per return can be excluded from income. The phase out begins at 150,000 (300K for married folk). Qualifying tips must be from an occupation that customarily receives tips (think wait staff not lawyer). Tips are reported on W-2s or self-reported for contractors like a nefarious Macy's elf from the *Santa Diaries*.

A deduction of \$12,500 (\$25,000 for married) is allowed for overtime pay even if you do not itemize. The same phase out limits apply as tips. **The entire overtime pay is not exempt.** If you make time and a half in overtime, only the half portion is exempt. If your employer does not break this down on a W-2, there is a place on the return to take the deduction for 2025.

MORE SOUP FOR YOU!

For 2025-2028 an additional deduction of \$6,000 is allowed to each mammal who turned 65 by year end 2025. The deduction is phased down when the AGI hits \$75,000 or \$150,000 for married seniors.

CHANGE TO SALT TAX

State and local tax limitations have risen to \$40,000 from \$10,000 on schedule A. The phase out begins at \$500,000 of income. This can result in tax savings for those of you with larger mortgages and headaches.

CAR LOAN INTEREST

You may deduct the interest on your vehicle loans even if the cars are used personally and even if you do not itemize. The phase out begins at \$100,000 for single and \$200,000 for married filers. Up to

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\$10,000 is deductible. The finance company must issue a form 1098 VLI to you which will have the relevant information like your VIN and favorite mix tape for road trips.

TAXED TO DEATH

The federal estate tax exemption is now \$15 million (dollars not rupees) and annual gifting limits are \$19,000 for '25 and '26.

NEW KIDS' SAVINGS ACCOUNTS

A new tax-deferred Tramp account, similar to a non-deductible IRA is allowed for kids under age 18. The annual contribution is limited to \$5,000. Money is invested in an index fund that grows tax deferred. Withdrawals may not occur until age 18, and early withdrawal penalties apply. The US government will make a one-time contribution of \$1,000 after July 4, 2026. These are good vehicles for college savings, retirement, or season tickets.

BONUS DEPRECIATION

Businesses may now take a 100% bonus depreciation on certain assets. Generally this does not apply to buildings but to other assets such as vehicles, equipment, roofs, and goats for said roofs.

CHANGE TO DAY CARE

Starting in 2026 dependent care plans now allow funding for up to \$7,500 per return rather than the previous \$5,000 cap.

IT'S EASY TO GRIN, WHEN YOUR SHIP COMES IN...
Is your ex-husband an Ahab? If so, you may want to put him on a ship and send him to the arctic. Whaling boat captains may now deduct \$50,000 for whale hunting expense.

SOCIAL SECURITY BACKPAY PAYBACK

In 2025 retired public employees in IL now started to receive standardized Social Security, undoing a 1986 law. In 2025 many of you received your entire 2024 back pay as well as higher payments for 2025. The bottom line is more tax as a result of the catch up. For budgeting, figure 25% is going back to your grateful Uncle Sam.

SWIPING LEFT ON THESE CREDITS

All dead in 2026:

- Energy efficient home upgrades
- Electric Vehicles
- Solar panels
- EV charging June 30, 2026
- The designated hitter

AROUND THE CORNER IN 2026

529 PLANS

Starting in 2026 up to \$20,000 per year can be withdrawn for private elementary and high school tuition.

CHANGES TO 1099's

Starting in 2026 a 1099 NEC will only be issued if subcontracting pay reaches \$2,000. The previous threshold was \$600.

CHARITY

In 2026 you may deduct \$1,000 (\$2,000 for those married) for cash given to charities even if you do not itemize. Starting in 2027 you can receive a credit for up to \$1,700 (dollar for dollar) for contributing to a scholarship granting organization. Your specific state must opt into the program. It should be seamless as it only requires a small dose of political cooperation.

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