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## 2025 Tax Legislation July, 2025

The Congress passed, and on July 4<sup>th</sup> the President signed major tax legislation.

While much more analysis of this massive bill is required, I wanted to provide you with some early analysis. The tax bill is big (nearly 1,000 pages) and complicated.

The answer to most questions of “will I benefit from (fill in the blank)?” is “maybe.” Why maybe? Because so many of the tax provisions have phaseouts which will limit whether any given taxpayer can take advantage of that provision. Here are some of the tax provisions that will be applicable to you, my clients:

**Tax Rates:** The 2025 Act makes permanent the 2017 tax rates, which were set to expire in 2025.

**Standard Deduction:** The 2025 Act increases the standard deduction for most taxpayers and makes the higher standard deduction permanent. The 2025 standard deduction is \$15,750 for single taxpayers and \$31,500 for married filing joint taxpayers. This is indexed for inflation in future years.

**Senior Deduction:** The 2025 Act provides a temporary (2025 through 2028) \$6,000 per person additional deduction for certain taxpayers age 65 and older. The deduction phases out for singles with income over \$75,000 and couples with income over \$150,000.

**Child Tax Credit:** The child tax credit increases to \$2,200 beginning in 2025, with phaseouts of that credit starting at \$200,000 of income for singles and \$400,000 for married couples.

**State and Local Taxes (SALT):** This is where things get complicated. The Act, in simplest terms, increases the amount of state and local income and real estate taxes that may be deducted from \$10,000 to \$40,000, but this amount phases out for taxpayers with income over \$500,000. This is effective beginning with the 2025 tax year.

Remember that your TOTAL itemized deductions, including SALT, need to exceed your standard deduction in order for you to get any tax benefit from the SALT deductions. Here is an example: Let’s use a married couple, both under age 65 for simplicity. They have \$10,000 of real estate taxes, \$8,000 of state and local taxes, \$5,000 of mortgage interest, and \$3,000 of charitable contributions. Those total \$26,000. Since the 2025 standard deduction is \$31,500, they will take the larger standard deduction. They WILL get a special deduction for some of their charitable contributions, as discussed below.

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**No Tax on Social Security:** This is NOT in the law, despite what you may have heard. What the Administration will tell you is that some percentage of seniors who claim both the Standard Deduction and the Senior Deduction will not pay any taxes on their Social Security. That may be true if you don't have any other income, but that is not most of my clients. If you have pensions, interest and dividend income, etc. you will continue to pay Federal income taxes on up to 85% of your Social Security income.

**Charitable Deductions:** Taxpayers who do NOT itemize their deductions are now eligible for a \$1,000 (single) or \$2,000 (married filing jointly) charitable deduction. This deduction begins in 2026.

Taxpayers who DO itemize their deductions may now deduct their charitable contributions to the extent that they exceed 0.5% of the taxpayer's "contribution base." This "contribution base" is basically your Adjusted Gross Income. Thus, if your AGI is \$200,000 and you donate to charity and itemize, the first \$1,000 (0.5% of \$200,000) will not be deductible. This provision also goes into effect for tax year 2026.

**Estate Tax Exemption:** The estate tax exemption is made permanent at a level of \$15,000,000 per person, and indexed for inflation beginning in 2026. Essentially this means that 99.9% of all Americans will not pay any estate tax. Practically speaking, what this means is that many trusts that were created to avoid estate taxes can now be eliminated.

**AMT Exemption:** The higher AMT exemption set in place in 2017 is made permanent. Most taxpayers no longer are subject to AMT.

**Auto Loan Deduction:** There is now, for tax years 2025 to 2028, a deduction for up to \$10,000 of interest on the purchase of a US assembled, gas powered passenger vehicle.

**Energy Credits:** The credits for electric vehicles are largely eliminated for purchases after 9/30/2025. Most energy efficient home credits are eliminated for purchases after 12/31/2025.

**Lesser Provisions:** There are numerous other provisions that may affect 1 or 2 of my clients. I do not have the space here to address them all, but I will bring them up in future meetings when appropriate.

**State Impacts:** The issues discussed above are applicable only to Federal income tax returns. Each state will need to determine if any of the provisions in the 2025 tax act will apply to that state's tax returns.

**Impact on National Debt:** The Congressional Budget Office (CBO, a federal agency within the US Congress) has estimated that the 2025 tax act will increase the national deficit by \$3.4 Trillion over the 2025-2034 period. This is compared to the baseline budget projections done by the CBO in January, 2025. Make no mistake about it, any tax savings that Americans may realize in the next 10 years will be paid for by borrowing by the US Treasury.

I hope you find this helpful. Please let me know if you have any questions.

*Eric*

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